EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

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JORDAN
Break with past at the ballot box
Page 4

World News

US agrees to unfreeze $567m of Iran assets

The US agreed to return $567m in frozen Iranian assets in a move which could encourage Tehran to use influence over Islamic fundamentalists holding American hostages in Lebanon.

Iranian President Hashemi Rafsanjani recently asked the US to return billions of dollars of assets as a pre-condition for Iran intervening to influence the Lebanese group holding eight Americans. Page 4

Mitsotakis pledge
Greece's Conservative leader, Constantine Mitsotakis, said he would make "a sincere effort" to form a Government within three days. Page 3

SA police form union
In a renewed challenge to white authority a mixed-race policeman formed South Africa's first trade union for police and prison warders.

Namibians vote
About 700,000 Namibians began voting in a five-day election that takes them over a threshold towards independence after 74 years of South African rule. Page 4

IMF man expelled
Bangladesh told the Resident Representative of the IMF to leave the country apparently after a row over Dhaka's fiscal policies.

Bonn to ban CFC's
West Germany plans an immediate ban on CFCs, chemicals that attack the ozone layer which surrounds the earth and screens out cancer-provoking solar radiation. International climate convention, Page 20

Thatcher on Lawson
British Prime Minister Margaret Thatcher said in the House of Commons she found the resignation last month of her former Chancellor, Nigel Lawson, "totally incomprehensible". Page 10

Women priests
The Church of England's "Parliament", the General Synod, supported the principle of women being ordained as priests under church law.

Corsican separatists
Heavily armed and hooded Corsican separatists rounded up villagers and blew up 150 apartments being built on the French island of Corsica.

Basque boycott
Basque separatists said they will end their 10-year-old boycott of the Spanish parliament when it assembles this month.

Ozal faces block
Turkey's opposition parties said they would boycott the inauguration of outgoing Prime Minister Turgut Ozal as president because they did not recognise his election.

French privatisation
The French socialist party relaunched the controversy over the privatisation programme of the previous conservative government, with the accusation that nationalised enterprises were sold below their real value. Page 3

US vetoes resolution
The US vetoed a Security Council resolution deploring Israeli actions in the occupied territories and demanding the return of property confiscated from a village where Palestinians staged a tax strike.

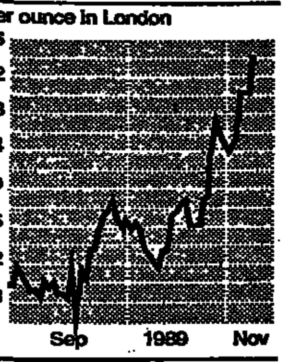
Business Summary

B&C hopes to raise £130m from sale of Gartmore

British & Commonwealth Holdings, UK financial services group, said it expected strong competition from foreign buyers to enable it to raise at least £130m ($204m) from the disposal of Gartmore, its UK-based investment management subsidiary. Page 21

GOLD: A sharp rise in the price of gold bullion sparked hopes among traders that a two year downward price trend might be over. In the morning session gold was fixed at

Gold price
$ per ounce in London



$385.50 a troy ounce, up $5.25 from Monday's close and the highest level for four months. At the afternoon "fix" the price eased back to $384.25 an ounce. Page 48

UNITED Scientific Holdings, defence contractor facing a £107m ($169m) takeover bid from Meggitt, said it was liable for up to $2.46m in "golden parachutes" for directors of its US subsidiary. Page 21

AT&T is planning to offer equity stakes in its Unix Software operation to major computer companies in a move designed to address concerns that its control of the Unix Software Operation could place AT&T at an advantage over other Unix computer system makers. Page 21

BOND International Gold, recently bought by LAC Minerals group of Canada, made a net loss of US$1.98m in the first quarter of its financial year. Page 23

ASIA-Pacific: Foreign and trade ministers from 12 Asia-Pacific countries agreed to meet regularly with the aim of boosting economic co-operation. Page 8

BOFORS: the Swedish Government is investigating whether the Bofors arms company assisted in the development of the Condor 2 ballistic missile project involving Iraq, Argentina and Egypt. Page 2

MCCAW Cellular Communications, US mobile telephone operator in a $5.4bn battle to take over LIN Broadcasting, reported a net loss in third quarter of $44.9m compared to a loss of $81.7m in the same period last year. Page 23

NIPPON Express, Japan's largest integrated transport company, reported a 24.1 per cent increase in pre-tax profit to Y14.6bn ($102m) for six months to September. Page 23

INVESTA, Norway's leading investment company, established Aksjefond Miljoerinvest, a NKr10m ($1.4m) mutual fund investing in environmental sector companies. Page 24

WAL-MART, one of the biggest US retailers, reported third quarter earnings 29 per cent higher at $232.7m or 41 cents a share. Page 23

GEC-Plessey Telecommunications, UK telecommunications equipment producer, announced the launch of a Paris offshoot to sell and eventually manufacture for the French market. Page 8

ALITALIA, Italian state airline, suffered a blow to its recovery strategy with the death of Carlo Verri, its 50-year-old president, in a car crash in Rome. Page 21

PURGE OF POLITBURO IS EXPECTED ● THOUSANDS OF PROTESTERS DEMAND FREE ELECTIONS

E German Government quits

By Leslie Colitt in East Berlin

EAST GERMANY'S Government resigned yesterday in a dramatic attempt by Mr Egon Krenz, the Party leader, to placate an increasingly turbulent population which is demanding his own resignation.

The Government's resignation marks the latest attempt to deal with a deepening political crisis, which has already toppled Mr Erich Honecker and has brought with it mass demonstrations and a flood of refugees to the West.

Although East Germany's 41-member government usually rubber stamps the policies of the Politburo, the top Party organisation, yesterday's resignation almost certainly heralds another large-scale purge of the Politburo.

The Party Central Committee, which is due to meet today, is now widely expected to sack Mr Willi Stoph, the 75-year-old Prime Minister, from the Politburo, along with his two first deputies, Mr Günter Kleiber and Mr Alfred Neumann. Mr Stoph, who has led the Government for 22 years, was regarded as a moderate in the orthodox East German system and was more widely respected by the general public than his fellow Politburo members.

Mr Wolfgang Meyer, Foreign Ministry spokesman, said Mr Stoph and his ministers would remain in office in a caretaker status until a new government was named.

However, as Mr Meyer was announcing the government's decision to resign, 3,000 chanting protesters marched on the nearby Communist Party headquarters to demand free elections.

Inside the austere Central Committee building the embattled ruling Politburo was preparing for the key three-day Central Committee meeting.

It was meeting amid growing demands from within the Communist Party for a purge of hardliners from the leadership. Some observers expect the Central Committee is expected to call for the dismissal of most of the 18-member Politburo.

However, Mr Krenz also faces a potentially dangerous rebellion inside the Party. Representatives of a leading Party institute, the Academy of Government and Law, sent an open letter to the Central Committee sharply criticising the leadership and calling for a special Party Congress to be convened. The letter demanded that "all members" of the Politburo personally account for their responsibility for the "crisis in society and the Party."

The Party's offer of a dialogue with the population could not be trusted if "comrades remain in the highest level of leadership who conducted themselves opportunistically and continue to do so," it noted.

Its call for a special Party Congress this year was in response to growing demands from rank-and-file Party members who are pressing for a sweeping democratisation of the neo-Stalinist Party. They want Mr Krenz to resign and to be replaced by Mr Hans Modrow, the reform-minded District Party leader in Dresden.

The letter said delegates to the special Party Congress would be directly elected by Party members and would propose a new Party programme as well as a new statute. They would also be empowered to elect a new Central Committee which would clear out most of the long-serving conservative membership.

Until recently, East Germany was among the most hard-line states of the East Bloc, and its ruling Communist Party had among the tightest grips on government. However, the goverment's resignation may now pave the way for a stronger national assembly

However, the West German Government last night described the resignation of the government as insufficient and said that free elections must follow. Mr Rudolf Seiters, minister in Chancellor Helmut Kohl's office, said the East German people "want a real transformation of the system, allowing them to decide their own future in freedom and self-determination."

More than 30,000 East Germans have now entered West Germany since Saturday. At midday nearly 200 refugees arrived by car hourly at the Schirnding crossing point on the West German border which was temporarily closed because of overcrowding. A Czechoslovak newspaper reported that 45,000 East Germans were in Czechoslovakia.

Bonn approves housing programme, Page 2: A party shaken to its core, Page 18

The move from Party to Parliament in E Europe

HUNGARY. October 1989: Ruling Hungarian Socialist Workers Party renounced leading role and became Socialist Party. Parliamentary and Presidential elections scheduled for next year.

POLAND. June 1989: Partially free elections destroy the Polish United Workers Party's pretensions to rule. Solidarity-dominated government led by Tadeusz Mazowiecki formed in August.

SOVIET UNION. March 1989: Election of 2,250 member Congress of People's Deputies, which elected 542 member Supreme Soviet: includes former dissidents Andrei Sakharov and Roy Medvedev, recent dissident/populist Boris Yeltsin and representatives of the Popular Front movements, especially from Baltic republics. Supreme Soviet overturns Mikhail Gorbachev on a strike law in October, but Communist Party insists on continuance of leading role.

YUGOSLAVIA. March 1989: Government led by Ante Markovic comes to power pledged to introduce free market system. In October, Markovic and other leaders forecast a multi party democracy and a strenghening of the federal government.

Demonstrators halt Soviet military parade

By Quentin Peel in Moscow

DEMONSTRATIONS in several republics of the Soviet Union yesterday disrupted the celebrations of the anniversary of the 1917 Russian Revolution, with nationalist protesters in the republic of Moldavia forcing a big military parade to be abandoned.

In both Georgia and Armenia, the traditional celebrations were abruptly cancelled, and nationalist movements instead marked the occasion with marches and ritual burnings of the Soviet red flag.

In Moscow an alternative parade organised by radical groups calling for multi-party democracy was allowed to go ahead at the same time as the military march-past in Red Square.

The protesters were prevented from joining the official parade in front of President Mikhail Gorbachev and the ruling Communist Party Politburo, but were allowed to hold a rally in the city's Olympic stadium.

However, in the Baltic republic of Lithuania, an attempt to stop the military parade by independence campaigners was foiled, while in Estonia and Latvia, there was a widespread boycott of the celebrations by supporters of Popular Front movements.

The most dramatic confrontation of the day took place in Kishinev, the capital of Moldavia, where a crowd of protesters clashed with police before clambering on to the tanks and military vehicles and preventing them continuing the parade.

The authorities in the republic were apparently powerless to prevent the demonstration, which was well advertised in advance as an attempt to stop "the military parade of an army of occupation," according to residents in the city.

Mr Yuri Roshka, a leader of the Moldavian Popular Front, said several thousand demonstrators from a variety of nationalist groups broke through the cordons of police, and climbed on to the military vehicles, waving protest banners.

They then broke through into Lenin Square, the main square in the city, where the leaders of the republican Communist Party and government were forced to flee from their saluting base.

In Georgia, where nationalist demonstrations have been gathering strength in recent weeks, a prominent nationalist leader said tens of thousands marched through Tbilisi, the republic's capital, with protest banners calling on Soviet troops to leave the republic.

The republican authorities reportedly cancelled the traditional military parade because of the tense atmosphere which has existed in the republic since the massacre of about 20 demonstrators in a clash with Soviet troops in April. Demonstrators have demanded the

Continued on Page 20

Radicals steal Red Square limelight; Bush says democratisation is irreversible, Page 20

Mikhail Gorbachev, Soviet President, waves from the Red Square tribune during Revolution Day celebrations yesterday

Barclays de Zoete Wedd and Morgan Grenfell call off talks

By Richard Waters in London

BARCLAYS de Zoete Wedd and Morgan Grenfell, the beleaguered UK merchant bank seeking a white knight to fend off Banque Indosuez, yesterday called off talks.

Morgan, however, said that it remained in discussion with "a limited number" of other institutions. Its share price closed up 1p at 469p ($7.38), reflecting the market's belief that a bidder will emerge.

Mr John Craven, Morgan's chairman, said the talks with BZW had lasted only "36 or 48 hours," but followed earlier discussions lasting several weeks this summer.

The first round of talks, instigated by BZW, were called off after "a number of difficulties" over merging the two operations arose, said Mr Craven. These included "overlap, regulatory issues and economic issues," he said.

The latest discussions, prompted by Morgan, had fallen apart when it became clear these same "very complicated" issues could not be resolved, rather than because of an unwillingness on the part of Barclays to make a full bid. He said the decision to end the discussions had been mutual.

In a terse statement to the market referring to "issues raised" in the summer, Morgan and Barclays, BZW's parent, said they had concluded that "a basis does not exist for pursuing the matter further." Sir Martin Jacomb, BZW chairman, was in Madrid yesterday and could not be contacted.

The talks were prompted by the desire to create a powerful investment bank to rival Warburg in London, combining Morgan's corporate finance division with BZW's securities operation. However, both sides said their strategies were undented by the breakdown.

Pointing to merchant banks which have prospered without having securities arms since deregulation three years ago, Mr Craven said: "We feel quite confident without securities distribution."

BZW, meanwhile, re-emphasised its belief in integrated investment banking and said it wanted to extend its involvement in large corporate finance transactions. It said it had been building skills steadily in this area, regardless of the Morgan talks.

However, the fact that it was BZW that first approached Morgan led analysts to suggest yesterday that it is suffering the lack of a major corporate finance presence more than it admits and that it will need to take a major step to rival the leading London corporate finance houses.

It also emerged yesterday that Hanson owns a 3 per cent stake in Morgan. This came to light by its disposal of 100,000 shares on Monday, triggering the requirement under the Takeover Code for any holder of more than 1 per cent of a company's shares to disclose dealings during an offer period.

Lex, Page 20; London stocks, Page 37

Paris links missile approval to UK backing for project

By Paul Betts and David White in London

FRANCE is insisting that the UK should join a French-led programme for a new family of air defence missiles as a condition for French Government approval of the proposed missile link-up between British Aerospace and the state-controlled Thomson-CSF.

BAe and Thomson announced last month their intention to merge their guided weapons operations in a joint subsidiary called Eurodynamics. At the same time the two companies are also weighing a possible joint bid for the troubled Ferranti International Signal group.

The French position appears to reflect strong pressure from Aérospatiale, the state-owned aerospace group, which is also France's main missile contractor.

The French authorities have indicated they would clear the proposed merger as long as it was not "incompatible" with other French and European missile programmes involving Aérospatiale.

Aérospatiale has always been known to have reservations over the BAe-Thomson association and to feel it is a more natural ally for BAe than Thomson. It already co-operates with the British group in missiles as well as in the Airbus commercial aircraft programme.

Mr Henri Martre, Aérospatiale chairman, says, however, that he will not oppose the deal as long as it does not cut across existing agreements between Thomson and his group, especially in the surface-to-air medium-range missile sector.

"We have asked that the agreements between BAe and Thomson are compatible with the agreements between Thomson and Aérospatiale," he confirmed.

The French campaign focuses on obtaining British government backing for UK participation in Eurosam, a recently created joint company between Aérospatiale and Thomson along with the state-controlled Italian company Selenia.

This company is charged with developing a family of surface-to-air weapons based on *Aérospatiale's Aster missile* and aimed at a multi-billion-dollar market.

Britain currently faces a choice between joining this alliance to equip its future

Continued on Page 20

MARKETS

STERLING
New York lunchtime: $1.5815
London: $1.581 (1.5795)
DM2.915 (2.925)
FFr9.885 (9.915)
SFr2.5575 (2.565)
Y226.75 (227.00)
£ Index 88.7 (88.6)

GOLD
New York: Comex Dec $388.4 (383.8)
London: $384.25 (380.25)

N SEA OIL (Argus)
Brent 15-day Dec $18.95 (+0.025)

Chief price changes yesterday: Page 21

DOLLAR
New York lunchtime: DM1.845
FFr6.2565
SFr1.6195
Y143.425
London: DM1.8445 (1.852)
FFr6.253 (6.2775)
SFr1.6175 (1.624)
Y143.40 (143.65)
$ index 69.8 (69.9)
Tokyo close: Y143.63

US LUNCHTIME RATES
Fed Funds $8\frac{5}{8}$%
3-mo Treasury Bills: yield: 8.01%
Long Bond: $102\frac{7}{32}$
yield: 7.92%

STOCK INDICES
FT-SE 100: 2,178.2 (+8.6)
FT Ordinary: 1,753.8 (+6.8)
FT-A All-Share: 1,097.59 (+0.3%)
New York lunchtime: DJ Ind. Av. 2,595.49 (+13.32)
S&P Comp 334.01 (+1.4)
Tokyo: Nikkei 35,270.46 (−163.54)

LONDON MONEY
3-month interbank: closing $15\frac{3}{32}$% ($15\frac{1}{16}$)
Liffe long gilt future: Dec $91\frac{23}{32}$ (same)

MARKET REPORTS: CURRENCIES, Page 44; BONDS, Pages 24, 26; COMMODITIES, Page 36; EQUITIES, Pages 37 (London), 45 (World)

CONTENTS

Acid test for Gandhi's most bitter opponent

VP Singh, leader of India's opposition, the Janata Dal, sees the forthcoming election as important because "clear cut alternatives are being put to the country." Page 4

Bonn allocates DM6bn for housing programme

By David Goodhart in Bonn

THE West German centre-right coalition yesterday agreed a crash programme to promote new house-building partly in response to the inflow of East Germans and other East bloc Germans this year.

The programme, which is likely to cost the Government an extra DM6bn (£2bn) over the next four years, consists of a doubling of the cash for public housing to DM2bn a year, new incentives to save for buying a house, and generous tax breaks for private house builders. *The Government will also* relax rent control laws.

The tightening housing market had become a central political theme even before the sharp increase in East German immigrants from September onwards. Thanks to a perceived over-supply of housing, there was a slump in housing investment in the mid-1980s which last year resulted in only 208,000 new homes being built – the lowest annual figure since the war. This year the figure should rise to 260,000, and to 400,000 in 1990.

The increased pressure on demand comes not only from the German immigrants but also from the growing number of single households. The Government now plans to build an extra 1m homes over the next three years.

Although the benefits of the crash programme will not be visible until after the general election at the end of next year, *the Government hopes* that the appearance of decisive action may help dampen electoral support for the far-right Republicans who have been picking up much of their support from relatively poorly housed lower income groups in the big cities.

Most of the new cash will go straight into new public housing. *Next* year there will be only a small increase in public housing to 120,000, from the planned 100,000, but thereafter it will increase more rapidly.

Although there are clearly acute housing bottle-necks in some parts of the country, some commentators believe the problem is getting out of proportion. Most people, they argue, are merely being prevented from increasing the standard of their housing as swiftly as they would like. A poll taken at the end of August found that despite the growing awareness of a housing problem 95 per cent of respondents were personally happy with their housing conditions.

The West German Red Cross yesterday appealed to employers to provide temporary accomodation for the thousands of East Germans that are continuing to flow into the country and who are now causing the 50 special camps errected for them in Bavaria to overflow.

The authorities believe that 15,000 East Germans have crossed the Czech border, in their distinctive Trabant or Wartburg motor cars, in buses, or by train, between Monday morning and yesterday evening. They were expecting a further 6,000 to 8,000 today.

That will take to over 40,000 the number of East Germans who have left in the latest mass wave which began with the opening of the Czech border last Friday, and to over 100,000 the number who have left unofficially since the Hungarian border was opened in September. Since the start of the year the number of East Germans who have left officially and unofficially is now well over 170,000. West German politicians and business leaders continued yesterday to appeal to East Germans to think twice before hopping over the border. Mr Klaus Murmann, President of the Federation of German Employers, warned that the capacity of the labour market to absorb the new-comers was not limitless.

Stockholm investigates Bofors over missile claims

By John Burton in Stockholm and Alan Friedman in London

THE SWEDISH Government is investigating if the Bofors arms company helped in developing the Condor 2 ballistic missile project involving Iraq, Argentina and Egypt.

This coincides with a decision by Stockholm to curb export of dual-use equipment that could be used in developing long-range missiles, such as Condor 2.

Sweden is the first European non-Nato nation to accept Missile Technology Control Regime (MTCR) guidelines reached in 1987, to stop missile proliferation in the developing world.

US officials say Condor 2, once developed, could upset stability in the Middle East and other Third World areas by its ability to carry nuclear warheads or chemical weapons.

Sweden's arms export control office KMI has asked Bofors to explain why it is listed as a subcontractor for a Swiss company alleged to have co-ordinated Western European technology procurement for Condor 2.

The inquiry is based on an internal document of the Consen Group, based in Zug, Switzerland and Monto Carlo. The document, dated June 1987, lists Bofors as one of six European companies "most important in co-operation and as subcontractors with Consen."

Other concerns mentioned include Messerschmitt-Bölkow-Blohm in West Germany and Fiat's Snia-BPD in Italy. These have repeatedly denied technology sales for the project.

Western diplomatic sources allege Consen has been funnelling missile technology to Condor partners through several subsidiaries, including Condor Projekt AG, and a joint venture, Intesa SA, with the Argentine Air Force.

Bofors said it had not had time to answer KMI's query, since it received the letter late last week, and could not say if it has co-operated with Consen. Bofors has been the subject of several arms trade controversies in recent years.

Three former executives are on trial in Stockholm for allegedly smuggling more than 300 RBS-70 missiles to the Gulf via Singapore in violation of Swedish law.

Bofors is at the centre of Indian election campaign claims it bribed members of Rajiv Gandhi's government in 1986, to win an artillery order.

The publicity surrounding Bofors has forced Sweden to tighten controls on weapons sales abroad.

Its acceptance of the MCTR is seen as the latest step in this process. Swedish officials insist they decided to curb missile technology exports before Bofors' possible role in Condor came to their attention.

French fail to end EC telecoms deadlock

By Lucy Kellaway in Brussels

EC TELECOMMUNICATIONS ministers yesterday failed to settle the deep differences over telecom liberalisation, increasing the likelihood that the Commission will intervene early next year in an attempt to force through its package.

A compromise put forward by the French presidency failed yesterday to resolve differences both between member states and between members and the Commission in three central areas.

These are: the scope of the proposed liberalisation of services; the use by the Commission of Article 90 which allows it to make laws without consulting member states; and the harmonisation of technical and legal standards with which suppliers of services must comply.

The French, Belgians, Spanish and Portuguese remain concerned that liberalisation will threaten their monopoly telephone utilities.

The British, Dutch and Germans reiterated their concern yesterday that the harmonisation directive (known as Open Network Provision) is too restrictive and would stifle competition.

Almost all member states oppose the use of Article 90, although the Commission yesterday showed little sign of dropping the matter.

The French Government has taken the Commission to court over its use of Article 90 and a decision is expected next year.

Ministers will try again next month to reach agreement on telecoms but if no agreement is reached by April the Commission still stands to force through its proposals.

Under the French compromise, the market in data switching would be liberalised but governments would have the power to issue licences.

This was unacceptable to Britain and West Germany which feared it could be used to protect national monopolies.

In an attempt to win round the keen liberalisers, the French plan suggested that harmonisation should initially apply only to telephone services and to leased lines.

However, it calls for member states to extend harmonisation to providers of all data services two years later. The British, however, argue that it would force smaller local companies out of business.

Mr Leon Brittan, the Competition Commissioner, said yesterday: "The Commission sticks to its use of Article 90, *as it must in carrying out its* duties under the rules of the treaty."

However, he added that Brussels would be willing to consider making concessions in cases where particular difficulties arose. These could involve countries with telephone services not sufficiently developed to meet the Commission's timetable

Profits, sales of French industry race ahead

By William Dawkins in Paris

FRENCH INDUSTRY'S sales and profits are racing ahead, but companies still fail to invest enough in new output, preferring to take over competitors, a survey by Crédit National, the leading French bank, warned this week.

A sample of 970 French industrial companies reported nearly 7 per cent increases in turnover last year, double the 3.4 per cent in 1987.

Industrial investment was up by 11 per cent, against 6 per cent the previous year. But this is only to catch up on inadequate investment of earlier years.

The author, Mr Joebl Prohin, a member of the bank's business consultancy department, highlights French industry's inability to keep pace with domestic demand as a prime reason for the growth in the country's industrial trade deficit, from FFr10bn in 1988 to FFr42bn last year.

The sample's average value added (sales minus direct costs) rose by 5.6 per cent last year, against 1.2 per cent in the previous 12 months, but still behind the rise in turnover.

Larger companies studied more than doubled the share of their valned added spent on buying stakes in other business over the past four years.

Spanish bankers face 1992 with confidence

By Tom Burns in Madrid

SPAIN APPEARS prepared to face the European single market challenge in the financial services sector but could face difficulties on the industrial front, according to bankers and *businessmen who met* yesterday in Madrid at a conference organised by the Financial Times and the Spanish business newspaper Expansión.

Mr Mario Condé, chairman of Banesto, a large Spanish bank, sounded a triumphant note when he stressed that European banks would have difficulties penetrating the market because retail banking in Spain "can only be conducted through a large branch network". Bank branches per inhabitant were above the European average, and there was strong customer loyalty.

Mr Manuel Guasch, chairman of Renault in Spain and of the agribusiness company Ebro, warned in contrast: "There is virtually nil vision in *Spain as to what 1992 means.* Spanish business is thinking in terms of a common market, not of a single market."

Howvever, Mr Conde's optimistic theme was echoed by Mr Rodrigo Echenique and by Mr Guillermo de la Dehesa, chief executives of Banco de Santander and of Banco Pastor respectively, who shared the view that the Spanish banking market was already saturated.

Mr Echenique said the way forward to 1992 for Spanish banks was through cross-border alliances much in the manner of Santander's share swap agreement last year with the Royal Bank of Scotland. Mr de la Dehesa said the Pastor bank, a medium-sized institution, was in the process of negotiating a similar type of agreement in France.

Professor Jack Revell, of University College of North Wales and an expert on the Spanish financial sector, was more cautious about the future and suggested that in 1992 there would be many predators on the lookout for weakened banks. "In many cases these weakened banks will be *those* that have expanded beyond their capacity, including those that have gone into cross-border activity without the resources to cover both that and their normal operations at home."

Mr François Henrot, executive vice-president of Compagnie Bancaire, argued that there *could be important changes* in Europe's retail financial sector after 1992. "Retail customers are increasingly well educated financially and well-informed. They will increasingly do their shopping for financial services . . . and pick up the best account, the best credit, the best mutual funds, the best insurance contract," he said.

On the business front, Mr Donald Johnston, managing director of Salomon Brothers, pointed out that 70 per cent of *Spain's companies had less* than 50 employees. Some "will either seek to merge or to acquire so as to increase their dimension, while others will conclude that their acquisition serves the best interests of their shareholders."

Mr Manuel Luque, former chief executive of the big Spanish detergent group Camp, argued that sectors of industry were being "colonised". He urged Spanish businessmen to club together because "no Spanish medium company can successfully outbid a multinational for the acquisition of another Spanish medium company.

Mr Jose Maria Isardo, *managing director* of Spanish battery producer Tudor, said that even when Spanish companies had established a notable presence in the domestic sector their size was still far smaller than that of similar companies in developed European countries. Mr Isardo, whose company has acquired a West German battery producer, said one option was to invest abroad in order to acquire an EC distribution network, production points close to European consumers and a complementary technology.

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EUROPEAN NEWS

French report claims state companies sold at huge discounts

By Ian Davidson in Paris

THE FRENCH Socialist party has relaunched the controversy over the privatisation programme of the previous conservative Government, with the accusation that nationalised enterprises were deliberately sold well below their real value.

After six months' work, a majority report of the special committee of enquiry set up by the National Assembly in April has published a voluminous indictment which claims that the 12 companies privatised by the Government of Mr Jacques Chirac in 1986-88 were sold between FFr8bn (around £400m) and FFr8.5bn below their true worth.

The report is likely to keep alive the left-right debate over privatisation-versus-nationalisation, which has resurfaced recently inside the Socialist Government. President Mitterrand has ruled against either privatisation or nationalisation; but some members of the Government, including Mr Roger Fauroux, Industry Minister, are concerned that nationalised companies are hampered in their access to new capital.

The report also claims that the privatisation programme was tainted with favouritism and conflict of interest between the Gaullist Government and its friends in business.

In particular, it points a finger at the role played in the privatisation process by Mr Roger Martin, one-time chairman of the Saint-Gobain glass and engineering group; and it implies that privatisation of the Matra engineering group was made particularly advantageous for Mr Jean-Luc Lagardere, then as now head of Matra.

The under-valuation of the privatisation programme rises to between FFr8bn and nearly FFr20bn, according to the report, if account is taken of an alleged shortfall in the value of the mutualisation of the Crédit Agricole bank.

The report's general conclusions are roundly rejected by the conservative members of the committee, who claim in an appendix that the evidence of the report merely confirms that the privatisation programme was a great success. Strikingly, however, the conservatives do not quarrel with the committee's complaint that Mr Roger Martin should not have been a member of the Government's privatisation committee when he was still connected with Saint-Gobain, an early candidate for privatisation.

The report is particularly stinging in its comments on the terms of privatisation of Matra, which it describes as "Lagardisation", after Mr Lagardere. It points out that the flotation price of FFr110 per share put a value on the company which was between 20 and 27 per cent lower in nominal terms than the value at nationalisation in 1982.

The report bases its accusation of deliberate under-selling on two grounds: that Mr Edouard Balladur, the then Finance Minister, tended to pitch the privatisation price at the low end of the range of advice offered by expert committees; and that in many cases the privatised companies rose to a sharp premium. According to the report, Mr Balladur did indeed set the flotation price at the low end of the recommended scale in the case of four companies: Société Générale, Suez, Crédit Agricole and Matra.

But in most cases, that is, before the crash of October 1987, the price set was within or even above the recommended range. The committee bases the second part of its claim, and its calculation of the financial short-fall to the French state, on the comparison between the prices at the time of privatisation and the average quotations during the following three months.

With the exception of the Compagnie Financière de Suez, whose privatisation fell just before the October 1987 stock-market crash, all the privatised companies rose to a premium during the following three months, ranging from +5.2 per cent for Société Générale to +29.8 per cent for Saint-Gobain, +28.6 per cent for Crédit Commercial de France, and +36.3 per cent for the small bank Sogénal.

Over a longer period, however, between flotation and August 1989, the comparison between the performance of the privatised companies and the stock market average is less clear cut. Half of the 12 companies did significantly better than the market, including Matra, and the TF1 television station. But most of the others performed in parallel with the market, and some even did very much worse, notably Sogénal.

Mitsotakis tries to avert crisis

By Kerin Hope in Athens

GREECE'S Conservative leader, Mr Constantine Mitsotakis, yesterday said he would make "a sincere effort" to form a government during the next three days and avert a prolonged political crisis in Greece.

Mr Mitsotakis, whose New Democracy Party narrowly failed to win an outright majority in Sunday's election but captured 148 seats in the 300-member Parliament, was the first party leader to receive an exploratory mandate from President Christos Sartzetakis.

In order to succeed in forming a minority government, Mr Mitsotakis will need guarantees from the Communist-led Left Alliance, which controls 21 seats, as well as support from two independent deputies, one representing Greece's Moslem minority and the other a federation of green groups.

"Do we want this country to be governed or to fall apart? That's the point we've reached," he said.

A statement by the Federation of Greek Industrialists called for a new government which would apply consensus policies to solve pressing economic problems: reducing inflation and the public sector deficit, and providing incentives for faster growth.

Austrians ease curb on lorries

By Lucy Kellaway in Brussels

THE European Community yesterday announced that it had won concessions from Austria over a plan to ban all noisy lorries travelling at night through the country.

Last summer, Austria announced that, starting in December, lorries with sound emissions of more than 80 decibels would be banned between 10 pm and 5am.

Austria, which is anxious not to upset the Community at a time when it is seeking to become a member, has agreed to make an exception for lorries carrying fresh produce and newspapers.

The Government has also promised to make other exceptions on a case by case basis.

The concession will apply for six months, and will give transport companies time to comply with the new rules.

The move comes at a time when the EC is negotiating transport arrangements with all the Alpine countries. Heavy vehicles are already subject to night restrictions in Switzerland, and the Austrian Government had become worried about the damage being caused to the country by an increasingly heavy flow of traffic.

The ban was intended as an interim measure designed to last until the EC and its Alpine neighbours came up with an agreed policy on transport containing a definition for clean lorry.

The compromise is expected to prevent a sudden interruption of road transit across Europe or an unacceptable diversion of traffic from other routes into the Community.

Polish arms-makers look for sales in plough-shares market

Christopher Bobinski reports on how the industry is coping with cuts in military spending

CUTS IN arms spending are threatening the future of several Polish arms factories. A switch to civilian production is by no means easy and there is scant hope of making up for falling domestic sales by increasing exports.

Figures only now being published under the new Solidarity-led Government show that 80 factories employing a total of 260,000 workers are involved in arms production. Some, like the Labedy Bumar plant in Gliwice in Silesia which produces tanks, have a mere 10 per cent of their output devoted to civilian products.

As the cuts are implemented, lower wages and output are leading to shopfloor tension, as a recent strike at the WSK Swidnik plant – once an important helicopter producer – employing 9,000 showed.

Investment aimed at retooling these factories is costly and difficult to implement, and switches to civilian production mean losing tax bonuses and wage preferences. Furthermore, strategic considerations demand that arms capacity be maintained even if production itself has been curtailed.

The two-day strike at the WSK Swidnik plant – where workers were demanding a change of management and higher output and were protesting against the Sipma projected joint venture with three Italian companies to produce mini-tractors – meant that the plant lost the chance to switch at least some of its capacity.

Sipma groups Ruggierini, a diesel engine producer, Barbieri, a miniature tractor maker, and Omas, which specialises in agricultural machinery, with Agromet, a farming machinery company in nearby Lublin. It would provide employment to 300 of the WSK workforce which at present is working barely more than one shift a day.

"During the strike, the workers said either the entire plant goes into the joint venture or no one does," said Mr Leslaw Paga from Boca, a private consulting company in Lublin hired to sell the idea to the WSK workers' council. By law, the latter has to approve any joint venture.

Mr Paga did his job well and the council voted to go in by 22 votes to 13 against. But as the news went out over the loudspeakers, the workers downed tools, demanded new elections to the workers' council and the works Solidarity organisation backed the stoppage.

"It shows how difficult it will be to restructure industry," Mr Paga said. Now Sipma, which plans to produce more than 20,000 mini-tractors and 10,000 diesel engines a year in Poland, is looking for another partner to replace WSK in the project which will be financed by $45m worth of loans to be raised abroad.

At Labedy Bumar, whose hard currency earnings from sales of the T-72 tank (comparable to West Germany's Leopard) have fallen from $234m in 1986 to $73m this year, overall output has slumped.

What sales still remain to the Polish army are not being paid for in full. The plant is owed Zl 7bn (£1.5m) by the Government and Mr Richard Jankowski, the managing director, is threatening to sue if he does not get the money.

An attempt to switch to mining machinery has also proved disappointing as Poland's coal mines are also facing a cash crisis because the Government is failing to keep up with subsidy payments and they cannot afford to take delivery of new equipment.

The plant is seeking to diversify into construction machinery and is looking to farmers for new markets. But, like the rest of Poland's arms industry, would prefer to find new customers abroad to bolster its exports.

Indeed, Solidarity's Gazeta Wyborcza newspaper has reported that an arms plant at Bolechow is considering producing Nato standard ammunition, the West German Bundeswehr is said to be thinking of ordering uniforms in Poland, and there are also possibilities of boots being sold to the US army.

Sweden agrees big cut in tax rates

By Robert Taylor in Stockholm

THE FINAL details of Sweden's long-awaited tax reform agreed between three of the country's main political parties were revealed yesterday in what has been described as the biggest shake-up of the Swedish tax system for a hundred years.

After January 1991 no Swede will have to pay more than half his income in tax, compared with the current top rate of 72 per cent, the highest in the world. As many as 85 per cent of Swedes who earn SKr180,000 (£18,000) a year or less will not have to pay any state income tax at all but only a maximum of around 30 per cent in local government income tax. For many this could be as low as 23 per cent as a result of extra rebate entitlements.

The tax cuts are to be protected against inflation with an annual adjustment of 2 per cent above the rise in the consumer price index.

Next January in the first of the two stages in the tax reform package all Swedes earning more than SKr75,000 a year will have their state income tax cut by 7 per cent, and for those earning less, a 3 per cent tax reduction. It will mean that the highest marginal tax rate next year will be 65 per cent. The more drastic tax reductions will come 12 months later.

As a way of helping the low paid there will be an improvement in tax rebates and an increase in child allowances, though Sweden's milk subsidy is to be abolished.

To pay for the tax cuts, which it is estimated will amount to SKr76bn, the petrol tax is to go up by 25 per cent to SKr1.50 a litre in two stages. There is also to be a broadening of Sweden's indirect taxes which are currently at 23 per cent to cover the use of energy, hairdressing, water and sewerage as well as refuse collection.

A 15 per cent tax is to be levied on individual private pension funds, which is much less than originally envisaged and pension insurance will become more expensive. There will be a 30 per cent tax on income from capital and property from January 1991 as well as a 30 per cent tax on the profit made on a house sale.

The final tax reform package emerged after five weeks of intensive negotiations involving Sweden's political parties and main interest groups initiated by Mr Ingvar Carlsson, the Social Democratic Prime Minister.

It is seen by many commentators as a victory for Mr Bengt Westerberg, leader of the opposition Liberal party who wanted a new maximum marginal tax rate of 50 per cent for everybody, and a setback for the more egalitarian demands of the powerful blue-collar LO union confederation.

The Centre party said while it supported the changes, it did not agree with the way in which the revenue lost was to be raised.

Politically the broad-based agreement on tax is expected to help the ruling Social Democrats at the 1991 general election. It is of particular satisfaction to Mr Kjell-Olof Feldt, the Finance Minister, who has fought hard to gain support for tax reform.

Only the right-wing Moderates remain outside the tax consensus, arguing that Sweden needs to reduce its overall high tax burden and not merely readjust its incidence. Their critical stance will make it hard for the non-Socialist parties to reunite as a credible alternative to the ruling Social Democrats.

OVERSEAS NEWS

Aoun supporters continue protests against President

By Lara Marlowe in Beirut

DIVISIONS deepened in the Lebanese Christian community yesterday, with supporters of Gen Michel Aoun, the hardline Christian Lebanese leader, continuing their campaign of intimidation against their opponents in East Beirut.

Gen Aoun's allies beat vegetable vendors who refused to observe a general strike called by the general to protest at the weekend election of Lebanese President Rene Muawad.

Mr Samir Geagea, the head of the Christian Phalange militia, meanwhile condemned Aoun's supporters for their Monday morning attack on the seat of the Maronite church at Bkerke.

The gangs mobilised by Aoun responded by attempting to take over the Phalange's Voice of Lebanon radio station. They were repelled by militiamen wielding batons, but 12 of the radio station's phone lines were cut. Ten phone lines belonging to the Phalangist Party were also cut.

Aoun supporters also began a sit-in outside the French Embassy in East Beirut to protest what they see as their abandonment by France.

A similar sit-in outside the American Embassy in September resulted in the evacuation of 30 American diplomats. Both France and the United States have recognised President Muawad as the legitimate Lebanese head of state.

Mr Georges Saade, the political leader of the Phalange Party and the member of parliament who led Christian deputies in negotiating the recent Lebanese parliament peace accord, has announced his intention to return to the Christian enclave controlled by Aoun.

Mr Saade is the only Christian deputy with a political party and a well-armed militia at his disposal. His return will therefore be a test of Gen Aoun's ability to "punish" deputies who have participated in the Arab League's peace programme.

In West Beirut, a terracotta mansion surrounded by walled gardens belonging to Mr Rafiq Hariri, the Lebanese-born Saudi millionaire, is being prepared for President Muawad. The residence is equipped with several satellite telephone systems.

In Southern Lebanon yesterday, Israeli helicopter gunships fired seven rockets at positions held by the pro-Iranian Hizbollah militia about 11 miles south east of Sidon. No casualty figures were available.

Seventeen people have been killed and another 103 wounded in 13 Israeli air attacks on Lebanese territory this year.

Japanese graduates shun heavy industry

By Nick Garnett, recently in Tokyo

JAPAN'S famed and powerful heavy manufacturing industries are increasingly preoccupied with one serious headache - their inability to attract enough shopfloor workers and top-quality engineering graduates on whose shoulders their success has been built.

Labour shortages are rife throughout Japanese industry but the country's huge mechanical engineering sectors have been losing out in the race for staff, not only to the financial sector but to the country's more glamorous electronics companies.

"Too many young people now want to work in a nice environment, you know carpets under their feet and air conditioning," says Mr Shinshichi Abe, executive director of the Japanese machine tool builders' association. "Have you got any ideas how we can recruit more good people?"

Mr Eisuke Nakanishi, managing director of Komatsu's research establishment at Hiratsuka, south of Tokyo, says the big construction machinery maker has actually done better this year than last at recruiting engineering graduates.

"But even if we get the right numbers, the type of engineer is a problem because I think the overall quality of engineers is falling.

"Everybody wants to work with computers and we are suffering from a lack of supply of designers."

Mr Terry Yamazaki, president of Yamazaki Mazak, the world's biggest machine-tool company, says heavy industry in Japan will have to boost wages closer to those offered in the financial sector, a gap he believes is about 30 per cent.

Last year, between a quarter and a third of university engineering graduates are believed to have found employment in financial services. Labour shortages are directly contributing to delays in the delivery of new production equipment purchased by Japanese manufacturing companies.

Despite protestations about labour shortages, the Japanese machine-tool industry, which is the world's biggest, has actually increased employment this year from 33,000 to 34,700. However, this has failed to match requirements made on it by domestic demand for production equipment which has gone through the roof in the past 18 months as a result of capital investment by Japan's car makers. Japan's machine-tool industry now has the biggest order backlog in its history at Y463bn (£1.9bn).

Labour shortages, compounded by difficulties in getting enough components, means that quoted delivery times for many types of machines are now 18 months. At the same time, many suppliers are failing to meet quoted delivery times, a sin in Japan.

"Some companies are telling customers they are going to be one month, up to four or five months late with delivery," says Mr Abe. Unfortunately for Japan's competitors, labour shortages are likely to result in increased competitiveness.

Sub-contracting companies, important to every sector of Japanese manufacturing, from electronics to car making, have been slow to introduce automation into their factories. But Mr Yamazaki says labour shortages are now forcing them to do so.

Astronomic land prices are allowing sub-contractors to raise loans on their land from banks to instal such equipment. "It should be easy for them when 3.3 square metres of land in the Tokyo suburbs is now costing Y60m," says one equipment supplier.

US agrees to unfreeze $567m of Iran assets

By Lionel Barber in Washington

THE US has agreed to return $567m in frozen Iranian assets in a move which could encourage the Tehran government to use influence over Islamic fundamentalists holding American hostages in Lebanon.

President George Bush said yesterday that the repayment was unconnected with his desire to see the eight American hostages released, but he added: "Of course, I hope Iran would use influence."

In recent months, Mr Hashemi Rafsanjani, the new Iranian president, has asked the US to return billions of dollars of assets as a pre-condition for Iran intervening to influence with the Lebanese terrorists holding eight Americans. The money is badly needed to rebuild Iran's war-damaged economy.

The Bush administration has steadfastly ruled out a direct trade, insisting that there is no link between the fate of the hostages and the dispute over the Iranian assets which is being adjudicated at a special tribunal in the Hague.

US officials said that the latest $567m repayment was made under the auspices of this tribunal which for the past eight years has sought to resolve Iran's claim to more than $10bn in assets impounded after the fall of the Shah.

The repayment was made shortly after last week's 10th anniversary of the storming of the US embassy in Tehran which led to 52 Americans being held captive in Tehran for 444 days. In 1981, after the American hostages were released, the US returned $3.89bn in funds directly to Iran and agreed to set up the Hague tribunal to settle other claims.

Last month, Mr Jack Anderson and Mr Dale Van Atta, the syndicated columnist, reported that secret dealings were underway between the Bush administration and President Rafsanjani. Quoting unidentified US intelligence sources, the columnists said there were hopes of getting one or more hostages free before Thanksgiving later this month.

Mr Bush told a White House news conference yesterday that he wanted to "clear out the underbrush" (believed to be a reference to the disputed assets) preventing improved relations with Tehran. "I think they (Iran) have made some positive statements."

Mr Bush added, in words which might easily have been uttered by President Ronald Reagan: "I carry the fate of the hostages every single day".

Namibian voters begin five-day poll in peace

By Patti Waldmeir in Windhoek

VOTERS began five days of polling yesterday in Namibia, Africa's last remaining colony, in United Nations-sponsored elections which are due to bring independence to the territory.

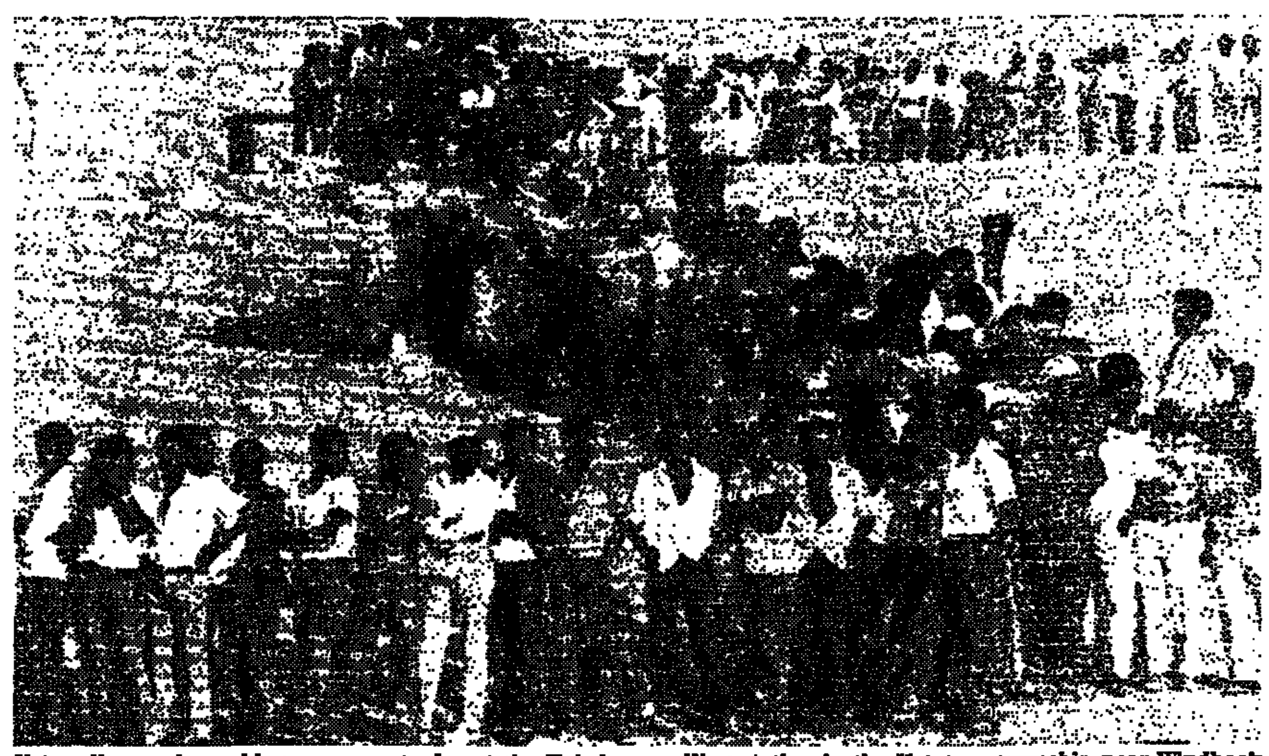
Mr Sam Nujoma, leader of the South West Africa People's Organisation (Swapo) and the man most likely to become Namibia's first president, was among early voters at Katutura, the black township outside Windhoek. At the township's Hakahana polling station thousands stood in a queue which wound its way between shacks and one-room breeze-block houses, almost all of which flew the blue, green and red flag of Swapo.

Long queues formed at other polling stations throughout the capital and in the north of the country, home of the majority Ovambo tribe, which overwhelmingly supports Swapo. No serious incidents of violence were reported.

Ten political parties are contesting the elections, in which 700,000 registered voters will choose a 72-member constituent assembly to draw up a constitution for independent Namibia. The territory has been administered by South Africa for 74 years.

Confusion over electoral symbols chosen by the parties, many of which are similar and could prove indistinguishable to illiterate voters, could lead to a 5 to 10 per cent error rate at the polls, according to a leading political scientist, Prof Gerhard Totemeyer.

Prof Totemeyer believes that despite expected errors, most of which may favour rival parties, Swapo will be close to the two thirds majority it needs to write the constitution, with over 60 per cent of the vote.



Voters line up in snaking queue yesterday at the Hakahana polling station in the Katutura township near Windhoek

Senior Unita man urges US-Soviet peace effort

By Michael Holman, Africa Editor

A SENIOR official of Unita, the Angolan rebel movement, yesterday called for a joint US-Soviet effort to end the country's 14-year civil war.

Speaking in London, General Tony da Costa Fernandes, a member of Unita's political bureau, said the organisation would welcome a superpower initiative, modelled on the diplomatic exercise that set in train independence for Namibia, linked to a phased Cuban troop withdrawal from Angola.

Mr Fernandes said such an initiative should be led by Mr Herman Cohen, the US assistant Secretary of State for African Affairs, and Mr Anatoly Adamishin, the deputy Soviet Foreign Minister.

Both men played key roles in the Namibia-Angola settlement, which was orchestrated by Mr Chester Crocker, Mr Cohen's predecessor.

Mr Fernandes described the current Angola peace negotiations as deadlocked. A plan launched last June by President Mobutu Sese Seko of Zaire envisaged a ceasefire, to be followed by talks between Unita and the MPLA government of President Eduardo dos Santos. It soon broke down when the ceasefire failed to hold.

This was due in part to a sharp division over what was to follow the ceasefire. Mr Jonas Savimbi, the Unita leader, disputed claims that he had accepted the integration of his party into the MPLA. He also denied that he had agreed to go into exile.

Mr Fernandes yesterday repeated Unita's insistence that the party be treated as equal partners in a transition government which would pave the way to multi-party elections.

Although Mr Savimbi would not hold office in such a government, he would continue to lead Unita from its headquarters at Jamba, southern Angola, said Mr Fernandes.

He held out little hope for a ceasefire, despite a series of recent meetings involving President Mobutu and other African leaders, designed to revive the peace process, and accused the MPLA of mounting a new military offensive against Unita positions.

Taiwan inflation rises

TAIWAN'S consumer price index (CPI) climbed 5.94 per cent in October from a year earlier, marking the biggest monthly growth since 1982, a government agency reported yesterday, AP-DJ writes from Taipei.

October's CPI stood at 110.23, up 0.93 per cent from the September level of 109.21, according to the Directorate General of Budget, Accounting & Statistics. Last October, the CPI was posted at 104.05.

Government officials attributed the sharp rise in the CPI partly to Typhoon Sarah, which pounded Taiwan in mid-September, causing NT$7.7 bn worth of losses in crops, livestock farming, fishery and forestry that in turn sent food prices soaring.

Growing labour costs and house rentals also were behind the surge in the CPI, officials added.

An official from the Council of Economic Planning and Development (CEPD), however, predicted that the CPI's monthly growth will tend to stabilize in the coming months as the government's tight monetary policy will keep going on.

Chang Hsiu-lien, deputy director of CEPD's Economic Research Department, added the continued drops in wholesale prices will also help slow the growth of the CPI.

October's wholesale price index dropped for the sixth consecutive month, settling at 93.43, mainly because of lower prices for textiles, petrochemical materials and basic metals.

Sharp cut in Tunisia's top tax rate

By Francis Ghilès in Tunis

THE MAXIMUM rate of personal income tax in Tunisia will be cut from 65 per cent to 35 per cent from January 1 1990, President Zine el Abidine Ben Ali said yesterday.

In a speech to the Tunisian National Assembly on the second anniversary of his assumption of power, the President said other tax rates would also be reduced. The aim was to broaden the country's tax base, but he warned that the reductions would be accompanied by severe measures to ensure that people paid their taxes.

Tax evasion is a national pastime, with much of the tax burden falling on the salaried classes. Reforming the complex and often old-fashioned system is seen by the country's leaders as a vital part of the policies initiated in 1986 of liberalising an economy still dominated by the state.

The head of state repeated his pledge to further democratise political life in Tunisia. But he reaffirmed his refusal to allow parties based on religion alone. "That is why we say to those who confuse religion and politics that there is no room for a religious party." The leading opposition party Ennadha (the Rebirth) has so far not been legalised.

Mr Ben Ali called on the media to encourage the expression of different views but warned that he would not condone personal attacks.

Jordan dusts down the ballot boxes to seal break with past

Tony Walker and **Lamis Andoni** report on today's election

THERE were banners with slogans attacking corruption, calls for an end to martial law, a band playing political songs, portraits of the candidate and a well-attended public rally.

In Madaba, a dusty town south of the Jordanian capital Amman, Mr Salem Nahas, a left-wing candidate, was conducting his final rally for today's general election.

His message was straightforward: people were urged to exercise their democratic rights to elect candidates who would insist on greater government accountability. "This is your opportunity to win your battle against corruption and embezzlement," Mr Nahas declared.

The election for 80 deputies is the first nationwide vote since 1967, when Israel captured the West Bank making elections impossible in that territory, which held half the seats in the old parliament.

King Hussein last year renounced claims to the West Bank in favour of the Palestine Liberation Organisation, and this election helps seal that division.

Jordan, with about 3.5m people, has been gripped by election fever for weeks as political candidates take advantage of unaccustomed freedoms to express openly their points of view. A number of those standing for election have been jailed at one time or another under Jordan's martial law provisions that have been in force since 1967.

"People realise that what they're undergoing is quite wonderful and unique," observed Mr Kamel Abu Jaber, a professor of political science at the University of Jordan. About 900,000 of Jordan's more than 1m eligible voters are expected to cast their ballots for 80 parliamentary seats. Representatives of the Islamic trend are set to win a large bloc of seats, giving rise to fears in Jordan of greater pressure for the implementation of religious laws.

The King, one of the world's longest-surviving monarchs, warned on the eve of the poll of the dangers of religion intruding into politics. The mainstream Moslem Brotherhood, which has long been tolerated by the Government as a counterweight to the Left, is publicly calling for the implementation of *sharia* law.

Attention has focused on the Islamic issue partly because of a controversial court case brought against one of the women candidates by two clerics who accused her of blasphemy and apostasy.

In threats and accusations very similar to those levelled at Salman Rushdie, the British writer, by Iran, the two plaintiffs demanded that an Islamic court declare Mrs Toujan Faisal incompetent, annul her marriage and grant immunity to anyone shedding her blood.

The case has been quashed by the court for the time being amid public and official pressure. Mrs Faisal, a well known television journalist and advocate of women's rights, had recently written an article accusing Islamic extremists of "trying to impose theological dictatorship".

Today's elections are the first in which women are standing, and the affair has provided a taste of the challenges facing Jordan's return to parliamentary life.

Jordanians will be watching closely the relationship that evolves between a relatively authoritarian monarch and a newly-constituted Parliament anxious to live up to the campaign slogans of its members.

The King is expected to continue to appoint his ministers, but their performance will almost certainly be subject to sharper scrutiny. The role of the King has not been challenged during the campaign. Most Jordanians appear to accept the monarchy as necessary for stability and the Parliament will continue to play a largely advisory role.

But democratic forces unleashed by the election seem certain to add to pressure on the King to consult more. "Without Parliament, there is no system," said Mr Laith Shbailat, an outspoken candidate. "Without Parliament, there is no country."

Sri Lanka acts to reduce its budget deficit

SRI LANKA'S budget deficit in 1990 is expected to shrink by 19 per cent, or Rs10bn (£158m), compared to 1989, according to government estimates presented in Parliament yesterday, Reuter reports from Colombo. The 1990 estimates show a deficit of Rs42bn, down from the 1989 estimate of Rs52bn.

Mr Dingiri Banda Wijetunga, Finance Minister and Prime Minister, who presented the estimates, will explain to Parliament on November 15 how he plans to finance spending in 1990, parliamentary officials said. The whole budget is estimated at Rs103bn.

The main budget item next year is an allocation of Rs13.4bn for provincial councils, through which the Government plans to decentralise its functions. Defence spending has been estimated at Rs10.2bn, up from Rs8bn.

Officials said the programme has been trimmed to appease the country's creditors who have been pushing for a cut back in subsidies.

● India has asked the Government to ensure the safety of people in the eastern Ampara district, where weekend violence among Tamil groups left at least 49 dead, officials said yesterday, AP reports.

The gunbattles have triggered fears of more violence in the area and on Monday prompted Sri Lanka to order 900 soldiers into the district.

India withdrew its entire 4,000 peacekeeping force about two weeks ago.

IMF man told to go

Bangladesh has told the Resident Representative of the International Monetary Fund to leave the country after a row over Dhaka's fiscal policies, Western diplomats said yesterday, Reuter reports from Dhaka.

An official said Dhaka had requested the IMF to replace Mr Beaugrand after he criticised Bangladesh's fiscal policies and said its currency was overvalued.

Seoul growth down

South Korea is likely to record a 7 per cent economic growth rate in real terms this year, short of the original projection of 8 per cent, Mr Kim Kun, Governor of the Bank of Korea, said yesterday, AP-DJ reports from Seoul.

Mr Kim also predicted a current account surplus of between $5bn and $6bn, sharply down from last year's $14bn. He said consumer prices will rise about 6 per cent rather than the government target of 5 per cent. He attributed the inflation rate growth to high wage increases and surging real estate prices.

Acid test for Indian premier's most bitter opponent

David Housego goes on the campaign trail with Mr V P Singh, India's opposition leader and finds him in confident mood

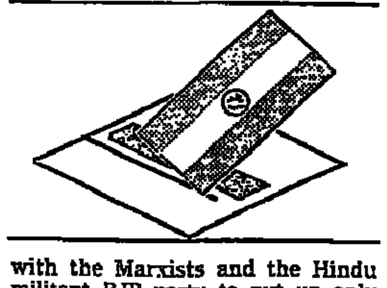
WITH balding head, slight shuffling walk and eyes blinking behind large spectacles, V.P. Singh, India's opposition leader, has the look of a man who could easily vanish in a crowd - which is one reason why so many Indians have long found it hard to visualise him ever emerging as the country's Prime Minister.

It is clear to anybody travelling with him on his election campaign that Mr Singh has no doubts the opposition will win and that he will be chosen to lead the next government. Architect of the strategy to defeat Mr Gandhi few would argue that he now has the authority to claim the premiership if the opposition is successful.

"As far back as December 1987", he says in his often clumsily phrased English,"when there was nothing on the scene, I clearly spelt out, seeing the ground realities of what was possible, that the centrist parties should merge, that we should have an alliance with the regional parties and then seek seat adjustments on our right and left."

The fruit of that strategy was the creation of the Janata Dal of which he is leader, an alliance with the regional parties to form the National Front, and finally an understanding

Indian Elections



with the Marxists and the Hindu militant BJP party to put up only one candidate against Congress in most constituencies.

"For two and a half years", Mr Singh says, while many thought the opposition would fall apart," I was criticised for confused thinking, indecisiveness and ambivalence...

"What was not appreciated was that to a complex political situation there has to be a complex response."

He says the "real acid test" of opposition solidarity was to reach agreement on distributing seats among the various parties. He claims the main parties are putting up a single candidate against the Congress in "virtually 80 per cent" of constituencies.

In India's post-independence history, he sees this election as important because "clear cut alternatives are being put to the country". It will also be a turning point, he predicts, because "after the election Congress will split. There will be a realignment of political forces and the Congress will never be the same again."

If Mr Gandhi is defeated, Mr Singh leaves no doubt that he would want to prosecute him in the courts over the Bofors scandal. "I don't want to be vindictive", he says, " but if there is a violation of the law of the land, the law of the land will be upheld...How can a Prime Minister lie to the country continually?"

In his disdain for physical comfort and his insistence on moral rectitude - as Mr Gandhi's former Minister of Finance he was best known for his attack on tax evasion by industrialists - Mr Singh does all he can to distance his style of living from that of the Prime Minister. He left Delhi for Bhagalpur on Sunday at the start of his campaign on his own and carrying a small suitcase. For the second leg of the long journey, he travelled by train reaching Bhagalpur at 2 am. Asked earlier where he would stay in Bhagalpur he said: "that is a question I never ask myself."

His bitterness against Mr Gandhi stems from his belief that he has undermined the dignity and institutions of the country. He sees the main issue of the campaign "as the dignity of the country which has been low and our democratic institutions that have been destroyed." On this basis he insists that if the opposition does win the election, the Prime Minister will have to be chosen by a "democratic process".

His own political record stands muddied on at least two accounts. He was a junior minister under Mrs Indira Gandhi during the Emergency - an abandonment of democracy he has never satisfactorily explained. Also his strategy for the elections depends on support from the Hindu militant BJP party whose fundamentalist campaigns have been responsible for much of the Hindu-Moslem violence in northern India that he now condemns.

Brought up in the Hindi-speaking farm belt of the north, and a former chief minister of his home state, Uttar Pradesh, all Mr Singh's emotional ties lie with the backward rural plains of the north rather than the cities which have generated India's recent spurt in industrial and economic growth.

His priorities are to achieve a shift of resources towards the agricultural sector and to see that social justice

Mr V P Singh: turning point

gets as much attention as economic growth. "In our country there is so much disparity of income and wealth", he says,"that we cannot go on postponing the issue of equity. It will catch us up if we ignore it."

As a former Finance Minister, he is worried by the growth of external and domestic debt and the accelerating inflation rate. "Many expenditures will have to be cut. There will have to be an effort on resource raising". He foresees a period of austerity notwithstanding inevitable claims for funds from the lobbies that have supported the coalition.

Though responsible for many of Mr Gandhi's early liberal measures, Mr Singh gives qualified support for further liberalisation. He wants to phase out industrial licencing and quota restrictions on industry - what he calls "discretionary controls" that encourage corruption. But he favours a greater use of administered interest rates and state-owned financial institutions to channel funds to priority sectors.

He is distrustful of both foreign investment and multinationals. "The problem (with foreign investment)",he says,"is that while (foreign companies') earnings are in rupees, the repatriation of profits will have to be in free foreign exchange which will have to be sustained by exports in other sectors".

Of India's controversial Fera (foreign exchange) regulations that are seen by foreign companies as the main deterrent to fresh investment in India he says "if there any irritants they can be looked into". But he implies that this would be well down his list of priorities.

Police union founded

Mr Gregory Rockman, the coloured Cape Town police lieutenant who lifted the lid on white police brutality two months ago, has helped found a trade union for police and prison warders, Jim Jones reports from Johannesburg.

The union, called the Police and Prisons Civil Rights Union, is the first of its kind and intends to act on behalf of its members and also to work for better relations between the police force and the public.

Lieut Rockman has been a thorn in the side of the authorities since he alleged widescale brutality by white riot policemen operating in coloured townships of Cape Town. Subsequent investigations by the police failed to secure convictions.

Manila prices up

Inflation in the Philippines reached 13.44 per cent last month, the highest rate recorded in the last three years, AP-DJ reports from Manila. The October rate compared with 12.61 per cent inflation a month earlier and 7.76 per cent a year ago.

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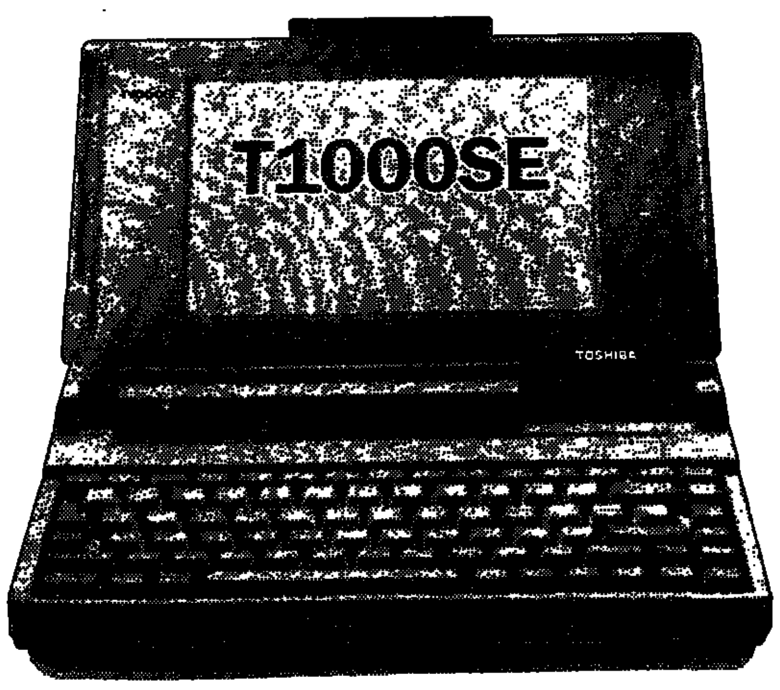

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AMERICAN NEWS

Star Wars' thunder dies away as its budget shrinks

Reagan's grand vision of an anti-nuclear defence umbrella is somewhat faded, writes Lionel Barber

THE Strategic Defence Initiative, which President Reagan once promised would create a near-impenetrable space shield against Soviet nuclear attack, has finally come down to earth.

Congressional negotiators last week agreed to the first cut (in real and nominal terms) in funding for SDI, or Star Wars, since the programme was launched in 1983. The Pentagon will still receive $3.8bn in fiscal 1990; but this amounts to $1.1bn less than the original Bush administration request and probably signals further cuts.

SDI's fading financial prospects come amid charges that the programme is ill-defined, technologically questionable and politically dangerous (because it allegedly creates instability in the nuclear balance of power). These criticisms are not new but have grown more insistent with the US defence budget shrinking in real terms and the Soviet threat apparently diminishing.

Even before last week's cuts, the Administration had reduced planned SDI spending over the next five years by $8bn – far more than a sceptical Congress had hacked from the programme since its inception. Moreover, President Bush seems quietly to have instructed his advisers to lower public expectations about the programme by sacrificing its greatest political appeal: Mr Reagan's vision that the best American scientific minds could create an astrodome-like defence against Soviet thermonuclear attack.

The first public recantation was uttered by Mr John Tower, Mr Bush's ill-fated choice as nominee for Defence Secretary, who said he could not conceive of an umbrella to protect the entire US population from nuclear incineration. In case anyone failed to get the message, Mr Richard Cheney, the present Defence Secretary (who is a strong SDI supporter) said a missile umbrella was "an extremely remote proposition" and that the programme had been "oversold".

These statements reflect the programme's problems, starting with its definition. As recently as mid-1988, the Phase One missile defence presented to Congress called for as many as 300 space-based interceptor "garages", each with about 10 interceptors, a large number of ground-based hit-to-kill rockets and associated sensor satellites. Estimated total cost: $115bn.

By October 1988, the number of orbiting SDI garages had halved to around 150, while ground-based rockets had increased by about 70 per cent. Along with other reductions in sensor numbers, these changes resulted in a revised cost of $69bn. "This new architecture faced considerable scepticism in Congress," says Mr Bruce MacDonald, a legislative assistant to Democrat Senator Dale Bumpers and a former US arms negotiator, in an analysis in the September issue of Arms Control Today magazine.

The latest SDI concept is "Brilliant Pebbles". Anywhere from several thousand to 100,000 pebbles – small, high-tech space-based rockets – would be placed in orbit ready to track, target and destroy missiles through direct collision. While considered technically feasible, Brilliant Pebbles still poses hazards: how to ensure that its early-warning systems are not accidently activated and how to reassure Moscow that the super-sensitive sensors will not be deployed offensively to help guide a US attack against Soviet missile silos. "The command and control problems are significant," says Mr Michael Krepon, an expert at the Stimson Centre in Washington DC.

A second weakness lies in SDI's changing mission. Mr MacDonald says the Administration has sought to portray SDI more in terms of strengthening deterrence by increasing uncertainty in Soviet war planning. This, he suggests, has left SDI competing with other programmes charged with the same task of strategic deterrence: the MX multi-warhead mobile missile, and the B-2 "Stealth" radar-evading bomber.

Mr Bush must realise this. So the question is whether he and Mr Brent Scowcroft, his National Security Adviser who is an SDI sceptic, are deliberately letting Congress whittle down the programme to make it easier to strike a deal with the Soviet Union on both offensive and defensive weapons.

Conservative critics such as Mr Frank Gaffney, director of the Washington-based Centre for Security Policy, smell a sell-out. The first clues, they believe, appeared last September during the Wyoming meeting between Mr James Baker, US Secretary of State, and Mr Eduard Shevardnadze, the Soviet Foreign Minister.

During the talks, the Soviet Union announced it would decouple a Start treaty (reducing offensive nuclear weapons by 50 per cent) from a new agreement to curb SDI. This has been a long-standing Soviet goal. At the 1986 Reykjavik summit between Mr Reagan and Mr Mikhail Gorbachev, the superpowers came close to drastic reductions in offensive weapons only to fail because Mr Reagan refused to confine SDI testing to the laboratory (and therefore, stay, unequivocally, within the 1972 Anti-Ballistic Missile Treaty).

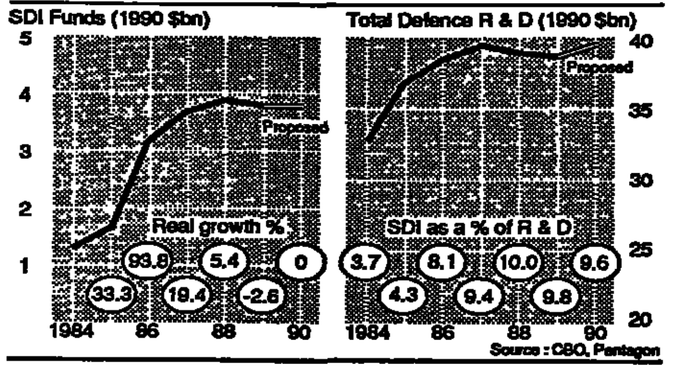
In Wyoming, Moscow said it could reach agreement on Start without resolving the SDI issue – though it reserved the right to withdraw from Start if the US failed to comply with the ABM treaty. On the surface, this seems merely to postpone the difficult SDI/ABM issue; but Mr Bush acknowledged the Soviet concession by shortly afterwards raising the prospect of a Start agreement next year.

For this to happen, Mr Bush may decide it is time to strike a deal with the Soviet Union on SDI which would keep the research effort alive while offering new guidelines on ABM interpretation.

This is not inconceivable. The US has already drawn up a "Predictability Protocol" on SDI testing aimed at meeting Soviet concerns by exchanging information on the programme. It has invited the Soviet Union to SDI laboratories to observe research and has presented Moscow with an outline treaty at the Defence and Space Talks in Geneva. "Progress has been glacial but cumulative," says one Administration official.

All these developments signal an end to the anti-arms control mentality which gripped the Reagan administration in its early years but which in 1987-88 was superseded by a rush towards agreements. Mr Bush applied the break in his first six months but the bureaucratic momentum is still there. SDI, shorn of funds by Congress and short of support within the Administration, is looking rather vulnerable.

SDI Trends



Source: CBO, Pentagon

Northrop sued by ex-workers over B-2

By Lionel Barber in Washington

THREE former employees of Northrop, the US defence manufacturer, have filed suit in California alleging that company mischarges on the B-2 Stealth bomber programme totalled more than $20bn.

This staggering sum stems from allegations that Northrop misrepresented its ability to build the radar-evading B-2 bomber over a period of more than six years. In this period, the suit claims, Northrop covered up the technical problems to continue receiving government funds.

The B-2 bomber is already facing stiff criticism in Congress where lawmakers are concerned about the technical problems plaguing the bat-shaped bomber and its high price tag – about $560m per aircraft.

The Los Angeles lawsuit is a revised version of an original complaint by former Northrop employees which alleged a pattern of abuse and fraud in the B-2 programme amounting to between $400m and $1bn.

The new suit attempts to establish the case that Northrop misrepresented progress on the development of the bomber at important stages when the US Air Force and other Pentagon agencies might otherwise have reduced or cut off funding for the programme.

Northrop denies the allegations. The company pointed out that last November the Justice Department found insufficient cause to intervene in the original suit (though the plaintiff's lawyers argue that this was because Air Force officials approved the questionable charges).

Like many other US defence manufacturers engaged in huge development contracts, Northrop badly underestimated the cost and difficulty of designing and producing the new aircraft which is part of the strategic triad of nuclear deterrence for the US.

Under the federal False Claims Act, individuals may sue companies they believe may have defrauded the Government and are awarded a portion of the treble damages if they win their suit.

Supreme Court ruling strengthens states' powers to restrict takeovers

By Peter Riddell, US Editor, in Washington

INDIVIDUAL US states have considerable freedom to pass laws severely restricting hostile takeovers as a result of a new Supreme Court ruling.

The court has decided not to hear an appeal against a Wisconsin law which requires any out-of-state corporation that acquires at least 10 per cent of a target company's shares either to have approval of that company's directors or to wait three years to complete a merger.

The law in practice halts hostile leveraged buy-outs of Wisconsin based companies.

The case has been closely watched as a guide to how far states can regulate corporate takeovers without clashing with Federal laws and regulations, which are less restrictive.

During the hearing lawyers said that about 24 other US states had laws similar to Wisconsin's and 784 of the country's 1,000 largest companies are in such states. While these laws cover all out-of-state takeovers, they could be used in particular against hostile foreign bids.

The effect of the Supreme Court's decision not to intervene is to leave states free to pass or to enforce takeover laws.

Lower courts had ruled that, while the Wisconsin law might be unwise regulatory policy and harmful to shareholders, it neither clashed with Federal securities law nor interfered with interstate commerce.

However, by not hearing the law, the Supreme Court did not rule on whether the Wisconsin law was constitutional and therefore there may be challenges in other states.

The appeal to the Supreme Court arose over a $687m tender offer by Amanda Acquistion, a subsidiary of High Voltage Engineering Corporation of Boston, for Universal Foods Corporation of Wisconsin.

The directors of the latter objected to the takeover.

Sarney to sue candidate for slander

PRESIDENT José Sarney of Brazil said yesterday he would sue Mr Fernando Collor de Mello, the presidential front-runner, for slander over accusations that he was incompetent and corrupt, Reuter reports from Rio de Janeiro.

Mr Collor de Mello, a 40-year-old populist who leads in the opinion polls for the November 15 election, has consistently attacked Mr Sarney in public meetings.

His attacks became more strident after Mr Silvio Santos, a television entertainer, announced his candidacy a week ago. Mr Santos's candidacy is seen as an attempt by the President to stop Mr Collor taking power.

Brazil goes on attack over protecting rainforest

By Ivo Dawney in Rio de Janeiro

BRAZIL'S environment chief yesterday attacked industrialised countries for failing to match their loudly voiced concern over Amazon rainforest destruction with financial resources.

Mr Fernando Cesar Mesquita, president of Ibama, the recently-formed state agency, said visits to Washington, London, Paris and Bonn after extensive international criticism last spring had failed to produce a response.

"Lamentably, in none of the countries we visited did we receive any help," he said.

"Our priority is to fight the devastation and we have a plan to do it, but the problem remains resources."

Mr Mesquita was frank about past Brazilian failures to take environmental issues seriously and the difficulties of working with a slow-moving central bureaucracy.

He warned that conciousness of the need to conserve forests, rivers and other natural resources remained low. In the country's backlands, lawlessness from drugs and gold trafficking to corrupt officialdom all played their part in hampering his agency's 612-strong labour force. But he said Ibama had considerable success in fighting illegal forest destruction this year in the July to September burning season.

US vetoes anti-Israeli resolution in UN

By Lionel Barber

THE US rallied to the support of Israel in the UN Security Council again yesterday but signalled its impatience with the Israeli Government's intransigence in the Middle East Peace process.

The US vetoed a Security Council resolution strongly deploring Israeli actions in the occupied territories of the West Bank and Gaza Strip and demanding the return of property confiscated from a village where Palestinians staged a tax strike. The Council's other 14 members all backed the draft.

It was the third time this year the US had blocked a resolution condemning Israel's handling of the 23-month uprising in the occupied territories.

But, in Washington, President Bush signalled that he was unenthusiastic about giving Mr Yitzhak Shamir an audience at the White House unless the Israeli Prime Minister offered a "positive contribution" to efforts to promote a dialogue with Palestinians.

Mr Shamir, who is due to visit the US next week, has been waiting for several weeks for the Bush administration to confirm a date for a meeting. In the past, such meetings between Israeli leaders and the head of state of Israel's closest ally have been a formality.

Mr Bush, like Mr James Baker, US Secretary of State, has become irritated by what appears to be Mr Shamir's stonewalling over the implementation of the Israeli election plan for the occupied territories.

President Bush said yesterday he was "willing to consider" a meeting. But "I'd like to feel that a meeting. . . would be constructive, that we would have something positive to talk about."

At the weekend, the Israeli Cabinet agreed in principle to Mr Baker's five-point initiative but continued to seek assurances that the Palestine Liberation Organisation would be excluded, directly and indirectly, from the talks. If the US agrees unconditionally to these assurances, it risks alienating Egypt and Palestinians in the territories.

AMERICAN NEWS

US gubernatorial and mayoral elections

Facing results: Norman Rice of Seattle; Jim Florio of New Jersey; Coleman Young of Detroit; David Dinkins and Ralph Giuliani of New York; Ben Nichols of Ithaca.

Black candidates look to historic victories in US

By Nancy Dunne in Washington

BLACK candidates looked set to make historic gains in yesterday's US elections, as US voters went to the polls to choose mayors, governors and a vast array of local officials.

The key contests were Virginia, where Mr Douglas Wilder, a grandson of slaves, sought to become governor of a former segregationist stronghold and New York City where Mr David Dinkins looked set to become the metropolis' first black mayor.

If Mr Wilder won, he would be the first black elected state governor.

In the only other governor's race in the off-year elections, Democrat Mr James Florio was expected easily to beat Republican Mr James Courter in New Jersey in one of the nastiest campaigns of the year.

"Slash and burn" tactics, perfected in last year's presidential campaign and employed in the major governors' races, have been occasionally mirrored in one of more than 100 contests for chief executive in the larger US cities.

The contest has turned particularly bitter in Cleveland, where two black office holders survived a primary which eliminated three white candidates in a city about 50% black and 50% white.

A Cleveland Plain Dealer poll gives the edge to an eloquent, young state senator who is pitted against establishment-backed long-time head of the City Council.

The City Council President, Mr George Forbes, has made headway in the race by accusing his opponent of beating, not one but two, of his former wives.

Mr Mike White, 38 year old state senator, denied the charges of wife-beating but raised eyebrows when he refused to say he had never "hit" a wife.

The Plain Dealer, which endorsed Mr White, acknowledged in its editions Sunday that their candidate's "rosy rhetoric that had charmed much of the city in September seemed to be wearing a little thin by the end of October...when those words were brushed aside, there sometimes didn't seem to be much behind them."

The choice for Clevelanders would, indeed, seem to be a difficult one. Mr Forbes has reputedly an "explosive" temper of his own.

He once threw a chair at another councilman, calling him a "mulatto punk," and he has physically ejected journalists from public hearings.

Mr Forbes also admitted owning rental properties with 200 housing code violations using his elected position to attract business to his law firm.

In Houston, Mayor Kathy Whitmire, running for re-election, has been fighting charges of "cronyism" because of $15m worth of city contracts awarded to the construction firm of one of her appointees.

Ms Whitmire is still popular with women in the district and black voters.

As election day neared, she held a substantial lead over her challenger, Mr Fred Hofheinz, a former mayor, and son of another mayor who had built the famous Astrodome.

Also in Texas, there is one Congressional race to fill the seat of the late Congressman Mickey Leland, who died in a plane crash last summer in Ethiopia. Eleven challenges are hoping to emerge from the field.

Many of the mayor's races are expected to result in the re-election of incumbents, like Mayor Xavier Suarez in Miami and Mayor Coleman Young of Detroit.

Voters are also going to the polls to decide a number of ballot initiatives and referendums.

In Seattle, in the north-west, one of the initiatives, an attempt to defeat court-ordered busing of school children for the purpose of racial integration, has become the focus of the mayoral campaign.

A Democratic black city councilman, Mr Norman Rice, entered the race to defeat a "Save Our Schools" initiative, which would divert city revenue to the independent school district if busing is ordered.

His opponent, Douglas Jewett, a Republican, is the author of the initiative, and has built a populist campaign around the measure.

In the meantime, Mr Rice had a change of mind and announced a plan for eliminating mandatory busing.

In San Francisco, a proposal to build a new baseball stadium is on the ballot.

In Maine, voters will give their views in a non-binding referendum on whether or not to ban testing of unarmed cruise missiles over the state.

In Texas, they will vote on higher salaries for state legislators. In Washington state the issue is more funds for education.

US OFF-YEAR ELECTIONS

State/City	Candidate	Party	Candidate	Party
GUBERNATORIAL†				
New Jersey	James Florio	D	James Courter	R
Legislature:	Democrats 39		Republicans 41	
Virginia	Douglas Wilder	D	J Marshall Coleman	R
Legislature:	Democrats 64		Republicans 34	
MAYORAL				
New York, New York	David Dinkins	D	Rudolph Giulani	R
Charlotte, N Carolina	Sue Myrick (i)	*	Craig Madens	*
Hartford, Connecticut	Carrie Perry (i)	*		&
Miami, Florida	Xavier Suarez (i)	R	Armando LaCasa	D
Minneapolis, Minnesota	Donald Fraser (i)	*	Jens Peterson	*
Pittsburgh, Pennsylvania	Sophie Masloff (i)		Unopposed	
Seattle, Washington	Norman Rice	*	Doug Jewett	*
Detroit, Michigan	Coleman Young (i)	*	Tom Barrow	*
Cleveland, Ohio	George Forbes	*	Michael White	*
Houston, Texas	Katherine Whitmire	*	Fred Hofheinz	*
Ithaca, New York	Ben Nichols	D	Jean Cookingham	R
New Haven, Connecticut	John Daniels			
OTHER				
Texas, 18th District	Special Congressional election to fill place held by late Rep M Leland		Eleven running 7 Dems, 3 Reps and 1 Libertarian	

† and Legislative
* Non-partisan election
(i) Incumbent

Drug dealer alleges sale to Mayor Barry

By Our Foreign Staff

A man convicted of drug-dealing alleged this week that he supplied cocaine to Washington Mayor Marion Barry more than once.

The dealer, Mr Charles Lewis, alleged he provided crack – a powerful, addictive form of cocaine – to the mayor of the US capital on more than one occasion.

The statement came while Mr Lewis testified in a hearing in which he pleaded guilty to two charges of distributing cocaine in hopes of getting a reduced sentence for co-operating in pending drug probes.

Mr Barry, who has been in office for nearly 11 years, has said he believes he has been accused of using drugs by people who want to use his name to get shorter sentences.

With unsubstantiated drug use allegations against Barry in a city with a record number of mostly drug-related murders, the mayor's popularity has plunged.

Despite many press accounts of investigations against the mayor, Mr Lewis' was the first on-the-record, under-oath accusation that Barry had been given drugs.

The federal investigation began when city police called off an attempt to make an undercover drug purchase from Mr Lewis on discovering the mayor was in Lewis' hotel room.

Mr Barry has acknowledged making at least six visits to Mr Lewis' hotel during that period, but has steadfastly denied using or purchasing drugs during those trips.

Responding to the allegations, the mayor said: "I'm not worried at all about this," saying that Lewis would "say anything in court ... trying to save his own hide."

"We question the credibility of the source," said the mayor's lawyer, Mr Kenneth Mundy.

"Charles Lewis is a besieged and beleaguered man who knows that his only salvation comes by not giving truthful statements about the mayor."

Lewis was convicted on cocaine distribution charges in the Virgin Islands earlier this year. His sentencing in the that case was postponed indefinitely on Monday as part of the plea bargain.

Mr Lewis, a former Washington local government official, had been a consultant to the Virgin Islands government. He said he was staying in the Washington hotel while looking for work. After the court case, Mr Lewis' attorney Mr Alan Soschin predicted Mr Lewis will serve between 10 and 12 months in jail, the minimum called for under rules governing plea bargain.

Mr Lewis, a former Washington local government official, had been a Virgin Islands government consultant.

WORLD TRADE NEWS

US accepts Gatt finding on import discrimination

By William Dullforce in Geneva

THE US yesterday accepted a Gatt disputes panel finding that its legal procedure for handling patent infringement cases discriminates against imported goods. But it was still unable to inform the Gatt Council it had complied with rulings urging it to remove its discriminatory Superfund tax on oil imports and scrap certain customs user fees.

By removing at the eighth request its block on adoption by the Council of a ruling against Section 337 of its Trade Act, the US has partially checked criticism that it is applying double standards in trade. In the Gatt Council yesterday, Brussels, Canada and Mexico renewed attacks on the US for failing to amend its Superfund and customs user fee law. In Washington, the House has passed an amending bill but the Senate has so far refused to accept it.

The US is pledged to winning Senate approval before the the end of this month or early December. Gatt urged changes to the US law as far back as June 1987.

The EC said the US had repeatedly justified resort to unilateral action on the grounds that the multilateral system did not work. Yet no Gatt rulings had been awaiting implementation as long as those against the US Superfund tax and customs user fees. The US had opened a credibility gap between its words and deeds and was now seen as the principal obstacle to a better Gatt dispute settlement system.

Mr Rufus Yerxa, Deputy US Trade Representative, hoped the US decision to comply with the Section 337 report would be seen as a vote of confidence in Gatt. But he warned that adoption of the report would not automatically change US practice in dealing with patent infringements.

Those features of Section 337 that the panel had found objectionable could be changed only by an act of Congress. Mr Yerxa appeared to signal US implementation would depend on successful outcome of the difficult talks on intellectual property rights in the Uruguay Round. The US was prepared to discuss appropriate changes in how it handled infringing imports against the backdrop of an emerging international consensus of greater protection for intellectual property, he said.

Mr Tran Van Thinh, EC delegation head, said it would be unwise to link "national treatment" of patent rights with Uruguay Round results. The EC, whose argument against the linkage was backed by Japan, India and Brazil, said it would return to the matter in six months. ("National treatment" means a country must apply the same rules to foreigners as to its own citizens.)

'Eco-tourism' takes off for Costa Rica

Tim Coone looks at a major but relatively untapped market in Central America

THE surfboard and suntan lotion are giving way to boots and binoculars as the essentials for the well-equipped tourist wishing to explore the latest on offer in Central America. For "Eco-tourism" as it has been labelled, has been identified as a major but relatively untapped market for developing Costa Rica's booming tourist industry.

Sandwiched between war-torn Nicaragua and crisis-crippled Panama, Costa Rica has successfully expanded its tourist industry in recent years, despite the negative image cast by its neighbours.

Tourist arrivals grew by over 20 per cent to 329,385 last year, an unprecedented jump this decade. Of these, 20,000 were visitors who came on specialised tours, up from 5,000 just two years ago, according to Mr. Roberto Chaverri, head of Tourist Resources at Costa Rica's Institute of Tourism (ICT).

He said "Eco-tourism" will be Costa Rica's big money-spinner in the coming decade, encouraged by a new approach to tourism in government circles and backed by a novel debt-for-nature financing strategy coming from the Ministry of Natural Resources and Central Bank.

Nature-park treks, bird-watching (there are 850 species), sport fishing and white-water rafting attract visitors who spend on average $1,800 (£1125)-$3,000 a week against $280 a week for the package-deal tourist seeking the standard beach, surf and sun which the rest of the Caribbean and Central America has been investing millions of dollars to attract, he said.

"We cannot expect to compete with the other main tourist resorts such as Cancun in Mexico, but we do have our natural resources which are unique in Central America,".

There are 19 National Parks and nature reserves in Costa Rica, which have become too expensive to maintain for a tightly-stretched government budget. The solution has been to "bring together tourism and conservation," said Mr. Chaverri, at a ceremony opening up the National Parks to private tour operators which can offer ecology-oriented packages to the growing worldwide interest in tropical rain forests and their wildlife.

The growing number of graduates in biology and ecology from Costa Rica's universities are meanwhile providing a ready source of well-trained, bilingual guides.

Dr. Alvaro Umana, the Minister for Natural Resources, said that in the past two years, $75m of Costa Rica's commercial bank debt, 5 per cent of the total, has been converted through the debt-for-nature swap scheme.

Foreign governments or foundations interested in helping conserve Costa Rica's National Parks can buy its debt on the secondary market, and have it converted into local currency in interest-bearing bonds at about two to three times the official exchange rate.

The value of donations can thus be greatly increased. Interest on the bonds is then used to finance various conservation projects.

A ceiling of $15m is being placed on debt conversion this year, to limit possible inflationary effects. Mr. Umana says monetary considerations are the main limitation to the scheme. "We have more offers for conversion than we can handle."

It is still unclear what effect Costa Rica's recent commercial debt renegotiation will have on the debt-for-nature swaps. "We will probably have to offer higher rates of conversion into local currency," said Dr. Umana, but bilateral government-to-government debt might be included in future. The Canadian government is reported to be showing interest.

But what of the contradictions between conservation and tourism? Mr. Guillermo Canessa, recently left his job in government as head of wildlife conservation in the Ministry of Natural Resources to set up his own "Eco-tour" agency. "We have many sites that can be developed. It is important not to overload any one of them," he said.

In areas of National Parks where peasant farmers continue to cut down forest, "the tourist industry can offer an alternative for them. We can demonstrate that the trees can be worth more to them standing than felled."

His main concern is that adequate controls be kept on new developments. "We are just beginning in this. The government is fully behind conservation and the development of eco-tourism, but it has still to define a clear strategy to balance the two."

UK telecom group seeks to win French sales

By William Dawkins in Paris

GEC-Plessey Telecommunications (GPT), the UK telecommunications equipment producer, yesterday announced the launch of a Paris offshoot to sell and eventually manufacture for the French market.

This is among the first fruits of the recent takeover of Plessey by GEC with Siemens, the West German electronics giant. The company, named GPTelecom, will have access to Siemens technology and products for sale in France.

It has been operating since July, since when GPTelecom has picked up tenders for £18m-worth of orders, which it expects to produce actual sales of £3.5m, Mr Rupert Soames of GEC-Plessey, chairman and managing director of GPTelecom, estimates.

That compares with total sales of just £9m for all British telecommunications equipment in France last year, of which GPT's existing sales office accounted for £350,000.

Pacific Rim nations agree to boost co-operation

By Chris Sherwell in Sydney

FOREIGN and trade ministers from 12 Asia-Pacific countries yesterday agreed to meet regularly, starting in Singapore next year, with the aim of boosting economic co-operation and campaigning for international trade liberalisation.

The decisions, made at an inaugural gathering in Canberra, have strengthened a fragile diplomatic process involving a diverse group of dynamic economies, and mark the emergence of an important new force on the global economic stage.

"This is a process that has momentum," proclaimed Senator Gareth Evans, Australia's Foreign Minister, who chaired the meeting.

Mr James Baker, US Secretary of State, called the meeting potentially historic.

Represented at the gathering were Japan and South Korea, the US and Canada, Australia and New Zealand, and the six-nation Asean group, embracing Singapore, Indonesia, Malaysia, Thailand, the Philippines and Brunei.

The ministers put off a decision on future membership, in particular the participation of China, Taiwan and Hong Kong, because of the political sensitivities involved. But it is clear that their membership is wanted.

The Singapore meeting is scheduled for mid-1990, and will be followed by a third in South Korea in 1991.

Future meetings will be held in Asean capitals every other year.

On top of this, trade ministers from the 12 will meet in September and December 1990 to discuss results emerging from the Uruguay Round of multilateral trade negotiations and, according to an agreed joint statement, "consider how to unblock any obstacles to a comprehensive and ambitious result".

The three-page statement, being an agreed ministerial declaration, represented a more binding outcome to the meeting than previously hoped.

Originally, there was to be just a chairman's summary, which Senator Evans also tabled.

Looking ahead, the ministers agreed it was premature to decide on a fresh institution or formal bureaucratic arrangement to promote the process.

The decisions mark the emergence of an important new force on the global economic stage

Instead senior officials from the 12 will meet on an *ad hoc* basis, starting in January.

On their agenda will be the Singapore meeting, but also the question of future membership and, equally pertinent, topics for regional economic co-operation.

The ministers agreed in Canberra that two joint projects should proceed as soon as possible: a review of data on regional trade and capital flows, and a study of ways to identify opportunities in trade, investment and technology transfer.

Others matters to be considered include infrastructure – telecommunications, maritime transport and aviation – energy, resources, fisheries, the environment, trade promotion and tourism.

To soothe Asean sensibilities, the ministers also acknowledged in their statement and in all public comments the debt they owed to Asean in initiating more formal economic co-operation among Asia-Pacific countries.

They also insisted that no other countries, including particularly the European Community, need fear the new grouping.

"Every economy represented in Canberra relies heavily on a strong and open multilateral trading system," the statement declared.

"None believes that Asia-Pacific economic co-operation should be directed to the formation of a trading bloc."

● Representatives from the Asian Wall Street Journal and the Far Eastern Economic Review – the most widely-read journals among the Asia-Pacific region's diplomatic and business communities – will probably not be able to cover the planned Singapore meeting in 1990.

Asked yesterday whether reporters from the two might be permitted to attend the meeting, Brig-Gen Lee Hsien Loong, Singapore's Minister for Trade and Industry, replied: "I very much doubt it".

Both journals currently suffer restrictions on their circulation in Singapore, and their reporters are regularly refused entry to work.

Brig-Gen Lee said they were aware of the reasons.

E Germany 'not to build Polo under licence'

EAST Germany will not try to build the Volkswagen Polo car under licence, despite the poor performance and long waiting-lists for its own Wartburg and Trabant models, according to Mr Gerhard Tautenhahn, East German minister for investment goods and vehicle building, David Goodhart reports from Bonn.

It has long been rumoured East Germany might try to build the Polo. It had been thought that after recent problems fitting the Polo engine into the Trabant, it might be easier just to build the whole Polo. Mr Tautenhahn said that since 1984, more than Mark 9bn had been spent building the four-stroke Polo engine, initially for the slightly bigger Wartburg, but annual production of Wartburgs has risen in that time by only 10,000 to 71,500. East Germans have to wait at least 15 years for a new car.

Japanese cartels warning

MR T. Boone Pickens, the Texan takeover specialist, told a Senate Finance Committee Japan may be exporting its "system of cartels" to the US, and would use its US operations as a way into European markets, Nancy Dunne reports from Washington.

With US and Japanese officials meeting yesterday for a second day of talks on structural barriers to trade and investment, Mr Pickens was called before the sub-committee to dramatise the inability of US investors to take control of Japanese companies.

His company had increased its holdings in Koito Manufacturing to 26 per cent, but he had been unable to gain a seat on Koito's Board. Requests for information had been denied.

"I represented a foreign threat to their stable, closed cartel-like system. They cannot afford to let an American on the inside for fear of what we might discover."

Senator Max Baucus, subcommittee chairman, said the talks under way across town were potentially the most important US trade initiative of the decade.

Charges considered over Clapham railway disaster

By Kevin Brown, Charles Leadbeater and Andrew Taylor

THE Director of Public Prosecutions is taking legal advice on whether to bring manslaughter charges against British Rail and 11 signals technicians blamed for causing last year's Clapham Rail disaster in which 35 people died, the Crown Prosecution Service said yesterday.

The CPS said Mr Allan Green would decide whether to bring charges in a few weeks, after considering the report of a public inquiry into the disaster chaired by Sir Anthony Hidden, the barrister.

A charge of corporate manslaughter would be the second such in Britain within months. The first was brought recently against P & O European Ferries, owner of the Herald of Free Enterprise ferry, which capsized off Zeebrugge two years ago killing nearly 200.

The Hidden report, published yesterday, names the technicians and details a series of errors which led to three trains colliding after a signalling breakdown on December 12.

The report says the prime cause of the accident was a wiring mistake made in signalling modernisations by technician Mr Brian Hemingway.

Mr Clifford Hale, 53, head of the BR department responsible for the work, resigned minutes before the report was published. BR said the others would face disciplinary charges which could lead to dismissal.

The report is severely critical of BR management, which failed to ensure that proper supervision was carried out, and allowed working practices "to slip to unacceptable and dangerous standards."

The report says BR had a genuine concern for safety, but allowed working practices to continue which were dangerous. "This unhappy coexistence was never detected by management and so the bad practices were never eradicated." Sir Anthony says the causes of the accident "go much wider and higher in the organisation" than those working on the signalling. He identifies 16 areas "where things went wrong."

Factors included a "totally unacceptable" level of overtime working, which affected staff concentration. This was well known to management and should not have been countenanced, the report says.

Sir Anthony says issues of low pay and Government funding of BR were not for his inquiry to address. But he says BR has problems with both.

The report makes 93 recommendations for changes in BR's operating practices. They include tighter procedural regulations for technicians; moves to end excessive overtime; changes in recruitment policy to bring in skilled senior staff; and urgent introduction of cab radios, "black box" voice recorders, and an system to prevent drivers passing red signals.

Sir Robert Reid, BR chairman, said he would not resign. He accepted the report in full, and said some recommendations were already being addressed. Sir Robert will see Mr Cecil Parkinson, Transport Secretary, today to discuss the report's financial implications.

Bleak signals for the future, Page 18

Swap banks win appeal date

By Katharine Campbell

LAST week's High Court ruling that money market transactions conducted by London's Hammersmith & Fulham council were illegal is to be challenged in the Court of Appeal in January.

A group of banks yesterday secured an appeal hearing due to begin on 15 January. They are seeking to overturn the judgment which caused an uproar in money markets by apparently ruling all local authority interest rate swaps unlawful.

At current interest rates, the banks stand to lose around £200m on their Hammersmith & Fulham exposure, and a further £300m to other councils if the judgment is not overturned.

Lord Donaldson, Master of the Rolls (the most senior civil judge in England and Wales), and Lords Justices Nourse and Russell were told by the banks' counsel, Mr Rhodry Davies, that the decision had "caused dismay in the financial community."

Its repercussions would be felt worldwide, Mr Davies said, because several foreign banks were involved in council swaps as counterparties.

The appeal will last eight days, and the banks will appeal all points of law. Ms Irene Dorner, chairman of the 35-bank steering committee said the banks would seek to secure a new ruling that local authorities were empowered to use such instruments for debt management.

Separately, a significant number of other UK local authorities, concerned at the implications of the judgment and anxious not further to sour relationships with the banking community, say that they want to continue to honour their obligations on outstanding contracts.

Some foreign banks and at least one broker have already indicated they will cease local authority business altogether as a result of this episode.

Hammersmith & Fulham council last Friday rescinded arrangements it had had with bankers since last February to make payments due into a special escrow account. Since the judgment, Haringay council in north London has also circulated all its bankers saying it will not make or receive payments while it seeks urgent legal advice.

Other authorities however wish to explore other avenues. Mr David Hopkins, treasurer of Westminster City Council and recently appointed president of the Chartered Institute of Public Finance and Accountancy says he is calling a meeting on 20 November of interested local authorities to discuss a common approach.

A total of 77 councils are believed to be involved in the interest rate swap market, though they have not all been identified.

Thatcher holds line on Lawson resignation

By Michael Cassell, Political Correspondent

THE Prime Minister, Mrs Margaret Thatcher, yesterday fought off fresh attempts by the opposition to exploit the resignation of Mr Nigel Lawson as Chancellor of the Exchequer by insisting in Parliament that she found his departure "totally incomprehensible."

With ministers hoping that the political backlash from Mr Lawson's departure is beginning to die, attention at the House of Commons still focuses on the prospects of a potentially damaging leadership contest next month.

Despite suggestions, however, that a group of backbench MPs plan to support a candidate to contest Mrs Thatcher's leadership for the first time since 1975, no names have so far emerged.

The Prime Ministers' office yesterday professed complete lack of concern about the prospects of any challenge, which would almost certainly fail and which most MPs agree could only inflict further damage on the party. It was also being made clear that, however much pressure is kept on Mrs Thatcher to reveal more on the events surrounding Mr Lawson's departure, would not be adding to her account.

Mrs Thatcher attempted publicly to dispel accusations that, in previously suggesting she did not know the reason for Mr Lawson's abrupt departure, she had deliberately withheld the truth surrounding his resignation.

Mr Lawson said at the weekend that he told Mrs Thatcher that the continuing presence of Sir Alan Walters, her personal economic adviser, was the only reason for his decision. He is thought to believe increasingly that Mrs Thatcher failed to take seriously his impending resignation.

The Prime Minister told MPs she did not believe Mr Lawson would want to resign "over a personality, with such suddenness and haste."

● The Chancellor's autumn statement is expected to be made to the Commons next Wednesday.

Union in talks to avert ambulance crisis

By Michael Cassell and Jimmy Burns

BRITAIN'S health service chiefs and union leaders were planning to meet this morning to try and avoid a major escalation of the eight-week ambulance dispute.

The move follows a government warning that it would bring in armed forces today to provide an ambulance service in London, after the capital's ambulances services were brought to a standstill.

The warning – which could have troops involved in an ambulance dispute for the first time since 1982 – was made in the House of Commons yesterday by Mr Kenneth Clarke, the Health Secretary, "in view of the gravity of the situation and the need to maintain an essential service in London."

It was immediately condemned by Mr Roger Poole the ambulance workers' chief union negotiator. Mr Poole accused the Government of making "purely political use" of the armed forces. He said it was "total over-reaction" as ambulance workers had offered to continue answering emergency calls. This was despite a work-to-rule introduced when talks to resolve a dispute over the Government's 6.5 per cent pay offer broke down two weeks ago. The union is now seeking binding arbitration.

The involvement of troops in the dispute had been widely predicted by union officials ever since the talks broke down. But the final decision to bring in troops came half-way through a day when the combination of hard-line management and intensified industrial action led to London's 71 stations being closed.

By last night there were indications of the dispute spreading elsewhere in the UK. In West Yorkshire, police began answering non-emergency calls for the first time after crews at seven stations said they considered themselves suspended in support of their colleagues in London. There were also reports of positions hardening elsewhere - including Surrey, Dorset and Greater Manchester.

The spark to the latest crisis was struck early in the morning yesterday when staff in one London ambulance station were suspended without pay for refusing to transfer to a neighbouring station as part of their work-to-rule.

As hundreds of staff were subsequently suspended without pay elsewhere in the capital for refusing to carry out non-emergency work and to maintain full radio contact with their headquarters, the London Ambulance Service rerouted all patient and emergency calls to the police.

From this afternoon about 50 military vehicles will provide accident and emergency cover along with a further 53 vehicles provided by the police and voluntary services. Military ambulances manned by armed forces personnel will be based at police stations around the capital.

Police and Ministry of Defence officials have indicated that the kind of service provided by today's cover will be unable to match that provided normally by ambulance crews in terms of equipment and medical training.

Normally, the London Ambulance Service takes 2,000 accidents and emergency calls a day with 171 ambulances.

Ministers are aware that the ambulance crews are attracting considerable public sympathy but they remain convinced that the pay offer to workers is a fair one.

Talking gets tough in tricky dispute

John Gapper reports on the arguments over ambulance pay

ESCALATION of the ambulance dispute has transformed it into one of the most difficult public sector pay wrangles the Government has faced in its decade of office. Not since the 1982 health dispute have army vehicles been used to cover for ambulance workers.

It is tricky not only because of its public nature, but also because of the hardening stances of the two sides. As the dispute has progressed, the resolve of the unions to achieve a deal linking pay to other emergency services has increased.

Simultaneously, Mr Duncan Nichol, chief executive of the National Health Service management board, has adopted the toughest possible version of the Government's traditional wish for greater public sector pay flexibility. He has suggested that each ambulance service negotiate pay for itself.

He stressed two points yesterday. The first was that only 10 per cent of the 20m ambulance journeys each year are in cases of accident and emergency. The second was that 94 per cent of the 1m NHS staff have settled the pay increase issue, mostly at about 6.5 per cent.

The first point – disputed by unions who say that 15 per cent of journeys are for emergencies – backed his determination to keep ambulance workers' pay within the remit of the NHS, where it has been since 1974 when they were moved from local government employ. The second point was used in defence of the standard pay negotiating system. Of groups negotiating in this way most have now settled, although medical laboratory staff are balloting on industrial action.

The Department of Health emphasises that one solution might be a long-term, flexible pay deal of the sort agreed for the non-industrial civil service. This would allow geographical or skill-related pay variations within a central bargaining framework.

Mr Nichol's position seems harder than this, however. In talks with the ambulance unions last month, during the last flare-up in London, he said that he wanted complete flexibility for individual ambulance services to raise and lower pay. This would imply a thorough move to local bargaining.

He did not mention the 130,000 NHS administrative and clerical staff who this summer settled a deal adding 9.5 per cent to the pay bill – the closest in the NHS to satisfying the conditions both sides in the ambulance dispute have set for a settlement.

Under the administrative and clerical deal, a pay "spine" of 10 grades replaced the old system of 500 grades. Health authorities now have the freedom to supplement pay points by up to 30 per cent in the Thames regions and 20 per cent elsewhere for posts which are hard to fill, but a central pay mechanism is retained. The flexibility has put an extra 3 per cent on the pay bill.

MR Roger Poole, secretary of the staff side, argues that a complete move to local pay bargaining is impractical because of the ease with which ambulance workers could move between services to get the best deal. However, he says unions are willing to accept flexibilities.

Mr Nichol has offered talks leading to pay alterations giving more recognition to staff with special skills, and helping to tackle geographical recruitment and retention difficulties. The implication is that he would be willing to follow the clerical staff deal.

However, the length and bitterness of the dispute has put a number of obstacles in the path of resolution:

● Time: The administrative and clerical deal was negotiated over a period of months. The pressure to reach a quick resolution of the ambulance dispute makes a similar delay impractical.

● Emergency services: Mr Poole insisted yesterday that the link to firemen's pay – and thus a form of comparability with the private sector – was now an essential target of the unions. This would pull ambulance crews outside the health service in pay terms.

● Basic pay: The unions say any deal would have to include a higher basic element, which could not be forward-funded from next year's pay round in the way Mr Nichol has suggested. Money would have to be attached from the start to a discussion process on future negotiations.

● Regional pay: Although the pay offer is said to amount to at least 9.3 per cent for ambulance crews in London, this is reached by increasing London weighting of £981 a year to £1,200 and consolidating it. The unions argue that this is merely shuffling figures.

UK NEWS

Treasury blocks RAF weapon funding

THE TREASURY has blocked Ministry of Defence funding for work on an anti-tank weapon for the Royal Air Force's latest Harrier GR5 aircraft in what is seen as first evidence of a drive to curb anti-armour weapon spending, writes David White.

Its refusal to approve funds for two shortlisted projects led by GEC-Marconi and Hunting anticipates an East-West agreement reducing conventional arms in Europe.

Treasury officials are bargaining for an agreement in the Vienna talks both for direct savings – by ensuring that the UK takes its share of equipment cuts covered in the talks – and for indirect savings from revising programmes that have been geared to countering concentrations of Warsaw Pact armoury in in central Europe.

They believe that recent high investment in anti-armour systems can be cut if the perceived threat of attack diminishes. They also want the MoD to review the mix of land-based and air-delivered weapons destined for anti-armour operations.

That implicitly questions the front-line role of the British Aerospace/McDonnell Douglas Harrier GR5, which the RAF has just begun deploying in Gütersloh, West Germany.

GEC-Marconi, jointly with Rockwell of the US, is proposing the Brimstone, a variant of Rockwell's Hellfire missile equipped with an all-weather millimetre-wave radar seeker. The Swaarm (Smart Weapon Anti-Armour) project proposed by Hunting in collaboration with Honeywell of the US and Diehl of West Germany is a dispenser system releasing 16 parachuted sub-munitions capable of locating a target.

Development and manufacturing costs are put at hundreds of millions of pounds. The companies which had expected MoD backing of about £35m each for the initial phase have had to fund their work to date. At GEC's Marconi Defence Systems subsidiary, that is believed to be costing £200,000 a month.

Brittan fuels Tory split with pro-Europe stance

By Ralph Atkins in London and David Buchan in Brussels

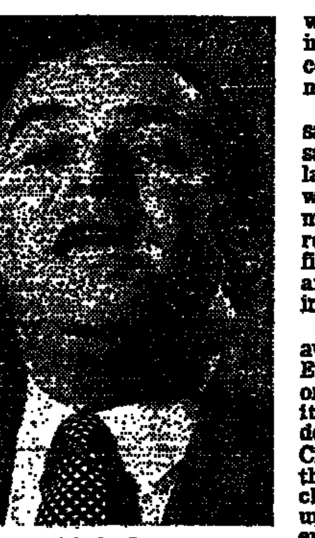
SIR LEON Brittan, European Commission vice-president, yesterday fanned deep internal disputes among Conservatives by arguing for an actively pro-Europe stance and swift membership of the exchange rate mechanism (ERM).

The former Home Secretary said Britain would jeopardise the enormous benefits of having a future European central bank in London unless it enthusiastically backed the project from the start.

He also proposed members of the European Parliament should bring expertise to the House of Commons by sitting on select committees considering European Community legislation.

His Granada lecture in London was devoted in large part to outlining the role of the EC and defending it against charges of excessive bureaucracy.

But he included a thinly-disguised commentary on recent government turmoil and former Chancellor of the Exchequer Nigel Lawson's battle with Sir Alan Walters, the Prime Minister's former economics adviser. On the debate about the ERM, Sir Leon said: "Academics, like accountants, should be on tap, and not on top."



Brittan: ERM advocate

Sir Leon said Britain should join the ERM "within a very few months from now", dismissing arguments that it should await inflation reaching the European average or the further removal of capital and exchange controls in other EC countries.

He said that for member countries, the ERM had brought lower inflation and lower interest rates. France was once a country of high inflation but now has a rate comparable with West Germany.

On monetary union, Sir Leon said its benefits would be the same as joining the ERM "writ large". Fixed exchange rates would mean, in effect, a common currency; the risk of currency realignments would finally be removed and costs and uncertainty faced by industry massively reduced.

He saw no reason to "shy away" from the concept of a European central bank based on the US Federal Reserve. "If it were based in London . . . the benefits to the City would be enormous. But there will of course be no chance of that happening unless Britain were to show its enthusiasm for the project from the outset."

He said West Germany's EC partners should make clear that they would "warmly welcome" the possibility of an eventually liberal democratic East Germany one day joining West Germany and therefore the European Community.

Sending Bonn a positive signal about possible German reunification was in the Community self-interest, whatever natural anxieties it might stir among some EC states, he said.

Business braces for taxing change

Paul Cheeseright looks at the progress of the uniform business rate

The most significant change in commercial property taxation for a generation is now short of just one detail. The system is in place, the transitional arrangements have been set down and the tax level has been estimated. What is still not clear is what the tax will be levied on.

This is the uniform business rate. Rates, or property taxes, on homes disappear with the poll tax. But they continue, in an updated form, on commercial property.

When on Monday, Mr Chris Patten, the Environment Secretary, announced "I estimate that the multiplier for 1990-91 will be 36 pence for England", he was saying that businesses will have to pay rates at 36p for every pound of the property's rateable value.

But the Inland Revenue, despite a deadline of October 31, has not yet assessed the new rateable value of every non-domestic property in England. It has nearly finished, but not quite.

The two things go together. To get away from what has appeared to business as capriciously different levels of rates from borough to borough, the Government decided to introduce a uniform business rate – that 36p. But it would introduce the rate on a fresh valuation of every commercial property in the country, the first revaluation since 1973.

On average, the Government estimated earlier this year, rateable values at the date of assessment – April 1 1988 – were 7.7 times higher than in 1973. But that average hides sharp differences.

The property world changed dramatically in the 15 years between valuations: the expansion and vastly increased capital value of shops, the rise in value of London and south east offices, the decline of older industrial properties in the Midlands and the North.

So the impact of the uniform business rate is varied and the reactions of business taxpayers vary accordingly. As the Government over the last year has edged towards the introduction of the new system from April 1 1990 (it is already in place in Scotland), the lobbyists have been out in force.

Their success has been mixed and that can be seen through the transitional arrangements. Frightened by the impact of perhaps a doubling in rates for some companies and sensitive to the needs of small business, the Government decided to spread the introduction of the new system over five or so years – no more than 20 per cent a year for larger properties and 15 per cent for smaller, plus the rate of inflation.

The downside of that was the concomitant move, demanded by the Treasury, to spread out the benefits for those companies – in northern manufacturing, for example – which face a lower rates bill. The Government will not accept a reduction in the total revenue coming from commercial property rates. Business organisations through the North and Midlands rose in protest.

Although the Government has said that the rate burden of businesses in the North and Midlands will be reduced by about £1bn, the impact on individual company costs is dampened by the tax reduction over five years.

By the end of the year it should be possible for any company to know what its rates bill will be. The detailed results of the revaluation will be known. The Government will announce the precise rate. But it is obvious from Mr Patten's announcement that inflation is taking its toll.

Last July the Government was estimating the rate poundage, the multiplier, at between 32p and 36p. Now, to take into account inflation, it has been raised to 36p as the middle of a new range of 34p to 38p.

The knowledge will encourage those who lease space to step up their activities a gear. "There is going to be great pressure on people to take space by April 1 so they can get the benefit of the transitional arrangements," said Mr Robin Goodchild of Gerald Eve, chartered surveyors.

The point is that any company taking up a property after April 1 will have to pay the full extent of the rate increase: no transitional arrangements for them. This could act as a temporary stimulant in some sections of the market.

Indeed, the introduction of the uniform business rate comes when the property market, after two years of exceptionally high returns, is starting to turn down. Extensive construction has produced more space, notably in the south east. But this is the region where the uniform business rate will have its sharpest impact in increased accommodation costs. Rates can be between 20 and 50 per cent of rental costs.

A combination of increased space and a growing reluctance of companies to pay more for space at a time of high interest rates and diminishing confidence about future investment could have a depressing effect on the property market.

The impact may be most severe in the retail sector. Retailers, after chasing space and pushing up rents until early 1988, now find margins and profits under pressure.

In Brief

Sony joins BAe in bid for telecom licence

Sony, Japanese consumer electronics group, has joined British Aerospace in its bid for one of Britain's new personal-communications licences.

Sony is only an associate of the BAe consortium, but it plans to take a stake of about 4 per cent when legal formalities are completed. The company says it wants to make a push into Europe's telecommunications markets as mobile telephones become mainstream consumer items rather than executive toys.

Spycatcher appeal

The Independent and The Sunday Times, UK national newspapers, asked the Court of Appeal to quash their convictions for contempt of court in publishing extracts from the book Spycatcher – memoirs of Peter Wright, the former MI5 agent - while a ban was in force against two other papers.

Paper drops LSE plans

The Daily Telegraph newspaper has decided against seeking a stock exchange listing for the foreseeable future because Conrad Black, the newspaper's chairman, believes London Stock Exchange rules are too restrictive.

Call for oil tax review

Bob Reid, chairman of Shell UK, called on the Government to re-examine the tax regime governing offshore oil production to encourage investment in older oil fields.

Opera House revamp

Royal Opera House, home of the national opera and ballet, will resume its struggle for a £150m modernisation largely financed by controversial property development on its West End premises.

Women priests

The possibility of women being ordained in the Church of England came closer when the General Synod, the church's governing body, adopted a clause endorsing the principle of women priests.

Girobank sale may be delayed

By David Barchard

PRIVATISATION of Girobank, the banking subsidiary of the Post Office, to the Alliance & Leicester building society may be delayed into the New Year because the Parliamentary Orders which approve the sale have still not been drafted.

Alliance & Leicester, one of the UK's home loans and savings institutions, agreed with the Post Office last April to buy Girobank for £180m. It was hoped that the deal could be completed before parliament went into recess in the summer.

It now looks certain that the Designation Order, which must lie before parliament for 40 days before being approved, will not be ready for several weeks.

The Order is to be drafted by the Building Societies Commission, which is the industry watchdog scrutinising the sale to ensure that its terms do not conflict with building society legislation.

Girobank has already been forced to shed its leasing business because Alliance & Leicester, as a building society, is not legally allowed to own any leasing activities.

It is understood that Alliance & Leicester has not yet prepared the formal proposal it must submit to the Commission. The application has to be approved by both the BSC and the Bank of England.

Reported crime down 5% but 'violence' on increase

By Alan Pike, Social Affairs Correspondent

A 5 per cent reduction in crimes reported to the police last year is confirmed in the Home Office's annual Criminal Statistics published yesterday.

The reduction, to 3.7m offences in England and Wales, follows more than 30 years in which crimes reported to the police have increased at an average annual rate of 6 per cent. But crimes of violence against the person – although representing only 4 per cent of all recorded offences – continued rising last year. There were 158,000 such offences recorded in 1988, 17,000 more than in 1987.

The Home Office's commitment to crime prevention exercises is unlikely to change with the replacement of Mr Douglas Hurd by Mr David Waddington as Home Secretary. A strong emphasis has been placed by the department in recent years on persuading both the public and business leaders to take more responsibility for controlling crime.

Mr Waddington has inherited a substantial shopping list of unfinished business. Private sector involvement in the prison system is one outstanding item. It is a strong possibility that legislation will eventually be introduced to allow private sector organisations to manage remand institutions, where Britain's prison overcrowding problems are at their greatest.

One of the earliest issues of controversy for the new Home Secretary will be whether legislation should be introduced to permit the prosecution in the British courts of alleged Nazi war criminals for offences committed abroad during the Second World War. Parliament will debate the principles involved before the end of the year.

FT LAW REPORTS

Commercial judge is allowed to transfer cases

TATE & LYLE INDUSTRIES LTD v DAVID McKEE (LONDON) LTD

Court of Appeal (Sir Stephen Brown, President, Lord Justice Bingham and Sir John May): November 2 1989

THERE IS no exhaustive definition of "official referees' business," the test being one of appropriateness; and accordingly, the Commercial Court may transfer an application for leave to appeal from a building or civil engineering arbitration to the Official Referees' Court, if it is a matter which would more appropriately be heard by an official referee in that it falls within his area of special expertise.

The Court of Appeal so held when dismissing an appeal by Tate & Lyle Industries Ltd, from Mr Justice Hirst's refusal (*FT, January 27 1989*) to re-list before a Commercial judge its application for leave to appeal from an interim arbitration award. The respondent to the appeal was Davy McKee (London) Ltd.

LORD JUSTICE BINGHAM giving the judgment of the court, said that Tate & Lyle and McKee made a contract for the renovation by McKee of a sugar refinery. The contract was based on a standard form of chemical engineering contract, and contained an arbitration clause.

Disputes arose. An arbitrator was appointed. He ordered the trial of preliminary issues. On November 18 1987 he published his interim award and reasons.

Tate & Lyle was dissatisfied with his construction of the contract. It applied for leave to appeal under section 1(2) of the Arbitration Act 1979, and issued a notice of originating motion of appeal.

Mr Justice Hirst ordered that the application for leave (and the appeal if any) be transferred for hearing by an official referee.

In making that order the judge was acting in accordance with the settled practice of commercial judges over the last few years.

The application for leave to appeal came before the senior official referee, Judge Lewis Hawser QC. He refused leave.

Tate & Lyle then asked Mr Justice Hirst to re-list the application before a commercial judge on the ground that that Mr Justice Hirst had acted without jurisdiction in ordering the transfer, and that the official referee had accordingly also acted without jurisdiction.

Mr Justice Hirst rejected those contentions. Tate & Lyle appealed.

The Rules of the Supreme Court (RSC) channelled applications for leave to appeal from arbitrations, and the appeals if leave was granted, to commercial judges. Most applications and appeals arose out of shipping, commodity and other commercial contracts, with which commercial judges were very familiar.

There were, however, two classes of arbitration in which commercial judges did not command any special expertise – building and civil engineering arbitrations, and rent review arbitrations.

They were likely to be much less well-versed than official referees in building and civil engineering arbitrations, and less well-versed than Chancery judges in rent review arbitrations.

Despite that, it was the practice for some years after the 1979 Act for commercial judges to hear applications for leave in all classes of case, and frequently to hear substantive appeals if leave were given.

The commercial judges came to recognise that it was sensible for appeals raising substantive questions of law to be determined by judges expert in relevant fields.

Thus the practice changed. The new practice was described in the *Guide to Commercial Practice* issued in 1986. It said that applications relating to arbitrations were required to be heard by a commercial judge, unless he otherwise directed; and that such directions were ordinarily made for transfer to a Chancery judge in rent review arbitrations, and to an official referee in building and civil engineering arbitrations.

If Mr Justice Hirst's order was made without jurisdiction, it made no difference that he was acting according to the *Guide*, which was not binding.

Mr Gardam for Tate & Lyle accepted that if the dispute had been the subject of court instead of arbitration proceedings, it would almost certainly have been referred for trial to an official referee, as falling within his area of special expertise.

He acknowledged that the relevant contract was on a form familiar to official referees. He did not suggest that commercial judges would possess comparable expertise. He rightly did not criticise the practical good sense which underlay the judge's decision.

If, therefore, Tate & Lyle were to succeed, it must be on the strength of its technical legal argument.

Jurisdiction to give leave to appeal and to determine an appeal from arbitration was conferred on the High Court by the 1979 Act. Such jurisdiction might be exercised only by a single High Court judge.

Section 68 of the Supreme Court Act 1981 provided that provision might be made by rules of court for High Court jurisdiction to be exercised by judges nominated to deal with "official referees' business."

The question was whether rules of court provided for the High Court's arbitration appeal jurisdiction to be exercised by an official referee.

RSC Order 36 rule 1(2) provided that official referees' business "includes . . . any cause or matter – (a) which involves a prolonged examination of documents or accounts, or a technical scientific or local investigation such as could more conveniently be conducted by an official referee; or (b) for which trial by an official referee is desirable . . . on grounds of expedition, economy or convenience or otherwise."

Tate & Lyle contended that that sub-rule provided an exhaustive definition of the meaning of "official referees' business." An application for leave and an appeal under section 1 of the 1979 Act did not, it was argued, fall within it. They did not fall within (a). Nor did they fall within (b) since "trial" there meant trial of an action in open court, not determination of an application in chambers or of an appeal on a point of law in open court.

Mr Keating for McKee answered that the sub-rule was not an exhaustive definition, only a guideline. He relied on Order 36 rules (2) and (3) which provided for transfer of business from the Queen's Bench or Chancery Divisions to an official referee when the court considered the matter might more appropriately be dealt with as official referee's business; and transfer to the Queen's Bench or Chancery Division where the official referee considered that the matter might more appropriately be tried by a master or judge.

Thus, submitted Mr Keating, the rule provided for a flexible allocation of business according to where the matter might most appropriately be dealt with – a criterion nowhere defined but well understood by practitioners.

Order 73 rule 2(2) provided that any arbitration appeal to the High Court must be made to a single judge in court. Rule 3(1) provided that subject to that rule, the High Court arbitration jurisdiction might be exercised by a judge in chambers, a master or the Admiralty Registrar.

Order 73 rule 6 provided (1) that any matter which was required by rule 2 or 3 to be heard by a judge, should be heard by a commercial judge "unless any such judge otherwise directs;" and (2) that nothing in paragraph (1) should be construed "as preventing the powers of a commercial judge from being exercised by any judge of the High Court."

Mr Justice Hirst did "otherwise direct" under rule 6(1). Mr Gardam submitted that the direction was unlawful because the matter was not one in which an official referee could lawfully exercise the jurisdiction of the High Court. He said it was not capable of being "official referees' business."

The submission was not accepted. The test for transfer to an official referee was appropriateness.

Order 36 rule 1 (2)(a) described the kind of cause or matter which might be appropriate for determination by an official referee. But many matters having those characteristics were habitually determined in other courts, and rule 1(2) provided no exhaustive definition of matters which official referees might entertain.

It was true that in the White Book and elsewhere "trial" was often used to mean a final trial as distinct from an interlocutory application, but when rule 1(2) was read in context it was plain that the word there did not bear that narrow meaning.

If the relevant matters were matters which it was appropriate for an official referee to determine, as they were in this case, the Act and the rules did not prevent the judge from making an order for transfer.

The appeal was dismissed.

For McKee: Donald Keating QC and Rupert Jackson QC (Masons)

For Tate & Lyle: David Gardam QC and Nicholas Padfield (Simmons and Simmons)

Rachel Davies
Barrister

TECHNOLOGY

Gordon Moore, Chairman of Intel, tells **Terry Dodsworth** about his career as a pioneer in the semiconductor industry

A risky ride but a good track record

Gordon Moore could be an historian of the electronics revolution. Chairman of Intel, the Californian semiconductor group, he looks back over a lifetime in which he has been close to the centre of nearly every important development in chip technology. It is hard to believe that this career spans only 33 years.

Moore contends that the electronics industry has been driven by three big breakthroughs: the inventions of the transistor, the integrated circuit and the microprocessor. In his first job in 1956 he worked with Bill Shockley, the eccentric genius who co-invented the transistor a decade before. A year later, he became one of the eight founder members of Fairchild, the company which produced the first commercial integrated circuit in 1959. A decade after that, he and Bob Noyce, one of the team which set up Fairchild, went on to establish Intel. They produced the first commercial dynamic random access memory (D-Ram) and a variety of other memory devices. They also invented the first microprocessor in 1971.

Moore, 60, with a doctorate in both physics and chemistry, is an unassuming man who talks about these developments as if they were things that just happened on the way to the office. Colleagues say that this demeanour is deceptive – that behind the modesty lies a brilliant mind.

Moore's description of the invention process is one in which he and his colleagues would be trying to match market needs – preferably high-volume ones – with what they knew about the capacity of the technology to meet those requirements. Sometimes, he says, chance plays its part; but it is difficult to believe that hard thinking has not been the main motor behind Intel's success.

Memory chips, for example, have been one of the main propellants of the consumer electronics and personal computer industries, because they allow machines to memorise data that is essential to make them function. He and Noyce decided to try and make them, however, not because they developed a process specifically for memories but because they thought these types of chips provided the opportunity to make complex integrated circuits in large volumes.

"At that time, it was hard to define any complex integrated circuit that was not essentially unique – you would use them one time in each computer. The technology was capable of making something in greater volume but it was not easy to see what it should be. And we thought semiconductor memory was something we could make in sufficient number to sell to a broad market."

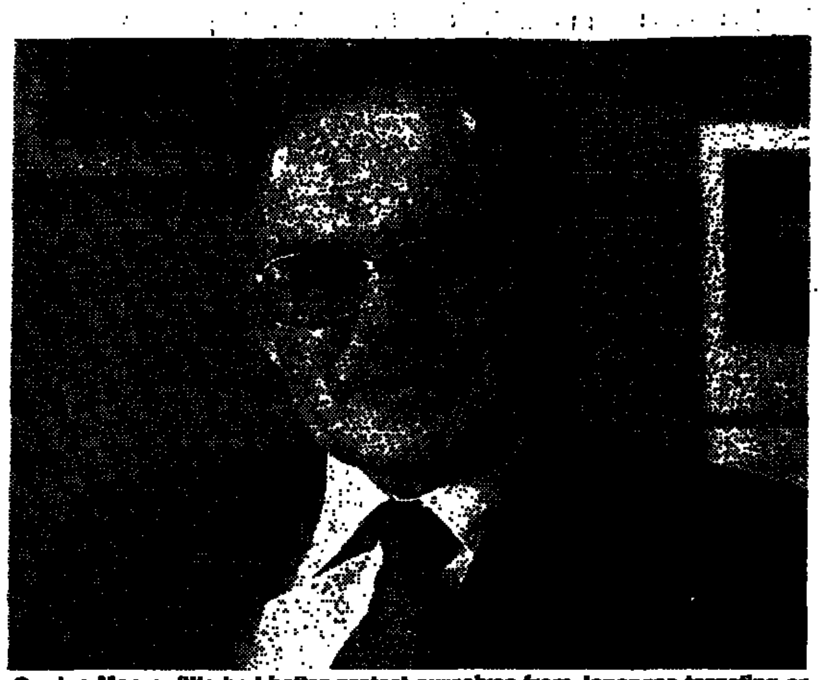
Memory chips established Intel, but it owes its continued existence to its microprocessors. The company's success in microprocessors – the "thinking" chips which control the functions of personal computers – is indisputable: it is said to have about 8 per cent of the world market for the processors that go into desk top machines.

"We got into microprocessors when we were looking for other examples of complex products we could make in large volume. At that time we were working with a Japanese company that was designing a series of scientific calculators and wanted 13 different complex chips. This was far beyond what our little engineering company could undertake, but we had a fellow, called Ted Hoff, who looked at the problem and said: 'Gee, I can do all this by using a general purpose computer architecture.'

"Hoff then pointed out that the chip would not only do that, but could be used for electric controls, traffic lights and a bunch of other things – and to me that was the major insight. He saw that the technology was at the point where we could make something of this complexity that had a very broad range of applications."

Moore concedes, however, that chance has come into the picture at times, most crucially in the deal to supply International Business Machines, the world's biggest computer company, with the microprocessors for its first range of personal computers launched in 1981. This contract established the Intel processor as the standard for the industry, a position it has held ever since. But the deal was won, says Moore, by a routine salesman's call on the IBM development team in Florida. At that time, Intel had no perception of the opportunities in personal computers.

Back in 1977, at about the time the founders of Apple began to pool their ideas together, an Intel engineer had come up with the idea for a personal computer. "About the only application we could come up with was for housewives to put their recipes on them," says Moore. "It just didn't seem to make any real sense . . . so when the IBM contract came up, we had no idea how important a product that was going to prove for us. Fortunately, we won the design. If Motorola (Intel's main US competitor) had got there before us, the history of the industry would have been different."



Gordon Moore: 'We had better protect ourselves from Japanese targeting or we are all going to be wiped out of one business after another'

As well as breaking new ground in technology, Moore was one of the pioneers in the venture capital movement which has been synonymous with the heavy growth of the Silicon Valley electronic industry. This again happened, he says, almost by chance. Moore, Noyce and six others decided to leave Shockley's laboratory and were anxious to continue working as a team together. One of them wrote to a relative asking for help and he sent along a couple of advisers. "We sat down with the Wall Street Journal and selected 30 companies that might be interested in supporting a new semiconductor producer. None of them responded."

The group eventually got under way with the backing of Seymour Fairchild, an inventor who had made a fortune out of cameras. In 1968, Intel was started with $1.3m of pure venture capital funds. Moore, however, now has some reservations about venture capital, which, he argues, has destructive as well as constructive characteristics.

"Venture capital has been very successful at establishing new ideas which big companies are not very good at bringing out. But at the same time, venture capital can have a destructive effect on industry, taking the best people from the larger companies, ripping apart their organisation and spreading resources too thinly. At one time there were 87 floppy disk companies, all duplicating the same work."

Moore is equally agnostic today about the virtues of the free-trading, liberal market philosophy which had such a vital role in fostering entrepreneurial companies like Intel. This change of heart has come about for an obvious reason – the growth of Japanese industrial power in the electronics industry, based, in Moore's view, on deeply illiberal industrial methods.

He supports the view that Japanese semiconductor manufacturers were guilty of unfair trading in 1985 and 1986, dumping memory chips at well below their cost price. This dumping, he says, drove almost all the American manufacturers out of the market at great cost both to them and the Japanese – "our industry lost $2bn and they lost $4bn" – but the process allowed the Japanese industry to establish a "classic cartel."

Evidence of the Japanese cartel, he contends, lies in the fact that memory prices since 1987 have been much higher than the fair trading level eventually agreed with the US trade authorities; they have also been much higher than the historic levels of the industry. "For the first time in the history of memory products the cost per bit (unit) of memory actually increased in 1987-88. This goes against the historic direction of the cost curve, which until then had been dropping for over two decades at something like 25 per cent a year."

The dumping saga was a particularly bitter one for Intel because, back in 1985, when the alleged dumping began, the company was ready to start investment on the production of an advanced one megabit D-Ram.

Japanese electronics companies have made their reputations as large volume producers of all D-Rams, and have made large profits out of one megabit chips over the last year. Yet Moore claims that Intel's one megabit design would have been a technology leader if the project had gone ahead. In the event, the company decided that it could not afford the $400m investment because the Japanese had begun cut price selling and profits were falling through the floor.

So what lesson does Moore draw from the dumping affair? "We had better protect ourselves from Japanese targeting or we are all going to be wiped out of one business after another." The US, he said, seems to be the national target market both for Japan and any newly developing industrial nation, simply because it has such an open market. "Yet you can't be the only free market in the world. Japan is not legally closed, but the Japanese don't buy manufacturing products from anyone else . . . the free market only works if everybody adheres to the same thing."

Meanwhile, Intel, along with Motorola, remains ahead of the Japanese in the microprocessor business. There is a strong argument for saying that this puts the company in an increasingly central position in the maintenance of American strength in the electronic sector. Moore does not quarrel with the view that the centre of gravity in the computer industry in particular, is moving away from the big mainframe companies towards the desk company factories – a sector where the products are critically dependent on the input of the microprocessor and software suppliers.

The price of staying in this race, he says, is huge. Product life cycles are now down to three years and it costs "hundreds of millions of dollars" to bring a new chip to market, compared to the $3m Intel spent on its first semiconductor 20 years ago. The risks are big, and the company is always hungry for cash, only just about generating its investment needs – $500,000 – in a good year such as this has been.

Intel has consequently never paid a dividend. But those investors who have been willing to stay aboard on this risky ride for the last 20 years have nevertheless had their reward through the growth in the company's equity stock. "I think," says Moore, "that our original investors have by now gotten about a 400 to 500 times return on their money."

Materials that like it hot

Next February the new French combat aircraft, the Rafale, will make its first test flight. Rafale is the culmination of a £14bn investment programme by French aero-engine company Snecma. It will be equipped with an M 88 engine, which makes innovative use of composites and alloys to achieve a high performance.

Snecma says the M 88 has a lead of at least one year, if not two, over the EJ 200, its European competitor. The EJ 200 was conceived for the European Fighter Aircraft by a team lead by Rolls-Royce.

The development of the M 88 represents about a quarter of the total Rafale investment. It is 40 per cent shorter and 45 per cent lighter than the Atar 90 engine in the Mirage F1, for the same power. Its thrust/weight ratio – the factor which determines the performance of a military aircraft – is 8.5, which is twice the level of the Atar 90 and 12 per cent higher than General Electric's F404, considered the best aeroengine on the market.

Low weight and high temperature performance are the prerequisites of the materials used in aeroengines. Among the most critical components are the turbine blades, which must tolerate high temperatures as well as centrifugal forces that are 50,000 times their weight. In the M 88, the temperature of the gas at entry to the turbine will be 1,600 deg C, which is higher than the melting point of the nickel alloy blades used in previous models. For the rotating turbine disks the temperature has increased to 600 deg C.

Snecma has developed new materials for these components which give the required properties. For the blades, Snecma has created a nickel-based alloy with a tantalum additive, called AM 1. Its strength lies in its ability to form a monocrystalline structure in the solid state. But because of the high temperatures, designers had to make as much use as possible of internal cavities in the blade – communicating with the external surface via tiny holes – to assist with cooling.

For turbine disks, the emphasis has been on crack propagation. It is important to be able to specify how long an engine can continue operating safely once a crack has formed. Such a prediction depends on the homogeneity of the material. Snecma claims that another alloy, called N 18, is harder and more fault resistant than Astroloy, which is the US answer to the problem.

N 18 superalloy is nickel-based, like AM 1. Making turbine disks in N 18 achieves the required homogeneity by using powder metallurgy. The powder – each "grain" of which contains the true alloy mix – undergoes treatments to optimise its properties and is then extruded to form a semi-finished product. Finally, Snecma has developed a carefully controlled isothermal forging technique to complete the disk geometry.

Isothermal forging is a part of the M 88 programme where the US has a head start. It is used with Astroloy to make the disks for General Electric and Pratt & Whitney engines already in service. Snecma is using the two US companies which carry out this process for GE and P&W to make the M 88 components. Installing a press in Europe would cost about £10m.

Composite materials is also an area which is expanding in terms of design. In most cases, composite materials replace titanium to give lower cost and reduce weight. For example, the set of "hot" and "cold" flaps will weigh 10kg when they are made from composites in the M88, compared with 25kg otherwise.

The hot flap, tolerating temperatures up to 850 deg C, will use a silicon carbide ceramic composite with a silicon carbide ceramic matrix while the cold flap, which only has to withstand temperatures of 650 deg C, is a mix of carbon and silicon carbide fibres. Though composites only account for 6 to 7 per cent of the weight of the current design of M 88 engine, Yves Honnorat, head of the materials and processes department at Snecma, believes that by 1995 the percentage will reach 14 per cent and could eventually achieve 25 per cent. They will be used for structural components to avoid the cost of titanium.

Anna Kochan

TECHNOLOGY MARKET

ARTS

TELEVISION

Not all lust for action

There is in Britain a strong tendency to badmouth (useful American expression) television journalism. Robin Day, one of television's most highly regarded journalists, has for years been expounding the theory that television is an inherently inferior and even dangerous medium for journalism, and he repeats his arguments in an epilogue to his new book, *Grand Inquisitor*, which was reviewed in Saturday's FT.

Repeating his own previous arguments (hence the past tenses), Sir Robin says: "With its appetite for visual sensation, its tabloid dependence on pictures, television had an inherent tendency to distort and trivialize. Disaster, violence, disruption, were the staple ingredients of TV's diet. Television's appetite for them was insatiable. This appetite, this lust for visible action and violent happenings, is itself an invitation to create more of the same for TV to project.

"Television, ran my argument, thrives on unreason, and unreason thrives on television. Television's dependence on pictures (and the most vivid and bloody pictures) makes it not only a *powerful* means of communication but a *crude* one, which strikes at the emotions rather than the intellect. For TV journalism this means a dangerous and increasing concentration on action rather than thought, on happenings rather than issues, on shock rather than explanation, on personalities rather than ideas, on exposure rather than exposition. I admitted that this meant TV could cover a riot, a war, a revolution, an assassination, more vividly than any newspaper. But TV tended to give much less explanation of the reasons behind these events."

Clearly there is some strength in this argument; it has certainly been propounded often enough. Peter Jay and John Birt (the latter now in charge of journalism throughout the BBC) published an article 14 years ago which began: "There is a bias in television journalism. It is not against any particular party or point of view – it is a bias against *understanding*." And in this very column, as recently as August, it has been argued that television is *still* not a vital part of our society's opinion-forming process because of its inferiority as a medium for the airing of ideas.

But, in the light of a number of events during the past fortnight including the resignation of Nigel Lawson, the freeing of the Guildford Four, and the revelation of unpunished Italian war crimes, it seems important to clarify and perhaps even modify this argument.

Just before coming to the matter of good journalism it might be as well to emphasise that television can, of course, have the most dreadful effect upon good journalists. Anybody in the London area who can recall the wit and expertise which Michael Parkinson employed in writing and presenting *Cinema* 20 years ago must surely be saddened to see him now presenting *Parky* on Monday evenings.

It is embarrassing to listen to the string of pre-scripted gags which he delivers at the start of this over-long chat show, looking and sounding like some ageing and inexpert stand-up comedian. We know he is capable of so much better. The same applies to Clive James (who also presented *Cinema*, incidentally) whose *Saturday Night Clive* stretches his abilities about as rigorously as a plasticine chest expander.

Walden: talk made front page news

To watch a man who has proved himself to be the country's funniest television critic, and one of its best literary critics, reduced to the old gutter journalism technique of saying "Look isn't this stuff appalling? And here's *some more of* it, and some more . . ." is deeply dispiriting. True, the clips from *New Zealand's Crimewatch* last week – with reports on a stolen caravan and some dropped sheepskins found on an arterial road – were very funny, but James did not make them so, and does anybody imagine that he, rather than the programme's researcher, spent the week spooling through miles of tape to find the clips?

The trouble is that whereas a top writer on a serious newspaper may earn about the same as a top writer on a tabloid, there is a huge disparity in television which clearly proves too much for some people. When a descent into hypocritical trivia can get you your name in the title and a six-figure salary it must be very difficult to resist.

However, the point which needs to be made after recent events concerns journalism more than journalists. While it continues to be true that television seems to be an inferior medium for the arguing and retailing of ideas, its role as an original source in the journalism of events becomes more and more important. Nothing could indicate this more clearly than the way in which newspapers have trailed along behind television coverage of the Lawson resignation.

Two weeks ago London Weekend's *Walden Interview* was devoted to Margaret Thatcher, this week to Nigel Lawson, and in both instances the next day's national newspapers were obliged to serve their public at second-hand by quoting extensively from the programmes. Indeed, many national dailies on Monday this week used the interview as the basis for their main front page story. Had you predicted such a situation to Fleet Street journalists 35 years ago they would have laughed like drains: the goggle box as a primary source for serious broadsheet journalism? Absurd!

It is worth observing that Walden, who has always been pretty impressive, proved quite outstanding on these two programmes, and particularly the first. Those who warned beforehand that his high regard for the Prime Minister would disarm him were proved dramatically wrong. He did stop short of saying "Look Margaret, you know and we know you're a raving megalomaniac – why not admit it," but only just.

These interviews were the most important but certainly not the only manifestations in the last few days of television's increasingly powerful role in serious journalism. There is no doubt in my mind that, even if the freeing of the Guildford Four had much to do with the politicians, lawyers and churchmen who eventually formed such an influential pressure group, the creation and continuation of that group depended upon television journalism keeping the subject alive.

In the 1960s and '70s it would have been the *Daily Mirror* under Hugh Cudlipp and the *Sunday Times* under Harold Evans which would have used journalism as a tool to bring justice to those four, but for some reason newspapers have done less and less of such work in the past 20 years. Today it is *World in Action*, *Rough Justice* (and what has happened to that excellent series?) *First Tuesday* and the like which have taken on the mantle.

It is television which is informing us now of the danger of Pol Pot and the Khmer Rouge returning to power, and therefore, presumably, to further genocide, in Cambodia. An early warning in a little-noticed edition of *Dispatches* on Channel 4 some months ago was followed last week by *Cambodia – Year Ten* in Central Television's consistently excellent "Viewpoint" series.

BBC2's *Timewatch* is currently providing another example. Perhaps there has been newspaper coverage of the story, emanating from recently released documents, about war crimes committed by the Italians in Ethiopia, Greece, Jugoslavia and concentration camps on Italian soil; and about the reasons why Britain and America conspired to avoid an Italian version of the Nuremberg Trials – but if so, I have missed it. (The second *Timewatch* on the subject is screened tonight at 8.10).

What we should recognise is that the sort of criticism of television made by Sir Robin, treating the medium as though it were a single *living* being ("its appetite . . . its dependence . . . lust for visible action") is yet another example of the pathetic fallacy – the habit among romantic poets of attributing human characteristics to inanimate objects.

There is good television journalism and bad, and while the medium does have inherent strengths and weaknesses, like any medium, including print, what matters most is the intention and the integrity of the individual journalist. *Saturday Night Clive* is ratings fodder which goes as close as it dares to the "sexploitation" of Sunday Sport in order to maximise its audience.

But at the other side of the spectrum *World In Action* has spent a quarter of a century developing a grammar and a code of practice which makes its journalism powerful and valuable. It does not "thrive on unreason" as its programme on The Birmingham Six proved last week, and it is remarkably effective at "explanation" – all too effective, like a growing number of television programmes, as more and more print journalists are forced to realise when they read the programme transcripts on their own front pages.

Christopher Dunkley

Médée

COVENT GARDEN

The latest operatic disaster at Covent Garden gives this reviewer special cause for wailing, hand-wringing, and teeth-gnashing. It was noble and brave of the Royal Opera to mount a new production of Cherubini's *Médée*, 30 years after the opera was last given here (with Callas in the title role).

Noble, because it is one of the masterpieces of opera, a Racinian Classical tragedy, severe, psychologically acute, musically magnificent, which never fails to stir to the core all who know and admire it. Brave, because the company have determined to jettison the impure Italian version – sung-through, with unidiomatic recitatives by a later hand – which Callas preferred, and to revive the original 1797 mixture of French song and speech. The Buxton Festival (in 1984) showed the way: that the work can be much more exciting and powerful when allowed to be itself (another point in favour of Covent Garden's seriousness is that the dialogue is trimmed but not cut to the bone, and that the musical numbers are presented with few of the usual internal truncations).

But good intentions are only the start. What the work then needs are style-attuned musical direction, a suitable exponent of the leading role, and a *dramatically sensitive* production – and in all these departments the Royal Opera have failed dismally. Mark Ermler, a curious choice of conductor, gets rounded, full-toned orchestral playing and choral singing. He seems to have not the faintest notion of Classical style, of Cherubini's peculiar command (pre-Beethovenian one might call it, proto-Stravinskyan even) of rhythmic pulse and momentum. There is no sweep, no fire, no energy, and much of Cherubini's most startling invention sags on its feet. Oh for a Norrington in the pit, rather than (as he was on Monday) in the audience!

To the singers, the critical approach deserves to be commiserative rather than abrasive. It was a mistake to warn the press but not the audience that the fine Russian tenor Alexey Steblyanko (Jason) was suffering a throat infection; he did not deserve the curtain-call boos, and, though certainly miscast, will no doubt contrive a better showing later in the run. Robert Lloyd (Creon) and Renee Fleming (a lovely, fresh young American soprano as Dirce) offer solid contributions; Claire Powell's rich-voiced Neris manages, in addition, a sense of vitality in spoken passages that makes all the others sound like A-level French students (beginner-level, in Mr Steblyanko's case).

But of course the performance depends on the Medea – it stands as one of the most tremendous soprano roles ever written – and Rosalind Plowright shoulders the burden inadequately. It gives me no pleasure to have to detail the *vocal difficulties that seem to* have beset this wonderfully gifted artist since her Buxton Medea five years ago: the high notes edgy, often sharp, the phrases bulging, often unsustained, the clouded tone, the lack of verbal clarity. At moments when the pressure is off the voice, she strikes fire in her demeanour and declamation; mostly, however, one retains the impression of a performer getting through a make-or-break assignment by the skin of her teeth.

It must be stated, in mitigation, that no-one is made, and almost everyone is broken, by Mike Ashman's production in Bernard Culshaw's designs. It is based on An Idea: in this year of the French Revolution bicentenary, why not make this a tricolour pageant, with copious references to David and other artists of the period, and turn the opera's principal characters into Napoleon (Jason), Josephine (Medea), and Marie-Louise (Dirce)?

The answer to this particular why-not is that, as realised by Mr Ashman, it is a frivolity – mildly irritating in Act 1, ever more absurd and contemptible thereafter – that moves the audience to laughter (or disgust, during the gruesome onstage murder of Medea's children), not awe or sympathetic terror; and that the most important features of the opera are left entirely unexamined when not actually blurred beyond recall. The thought that so many people will have left the Royal Opera House on Monday thinking of *Médée* as one of the great operatic bores is what moved me most: to *tears of rage and despair*.

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A brief note on the final performances of the ENO's *Masked Ball*, which took on a new tenor – the Canadian Richard Margison, making his European debut. He is a big find: short, stubby-figured, an impassioned actor, he has a house-filling personality and a voice at once sweet and even, cleanly produced throughout its compass and capable of genuine ringing excitement. He did not sing with special finesse or suavity, but he provided a vocal focus for this strange, and to my mind absolutely rivetting, production that had been missing before.

Supported to the full by the conductor, Michael Lloyd, on this evidence an excellent Verdian, Mr Margison enjoyed a triumph. One hopes there will be many others on the same stage.

Max Loppert

Alastair Muir

Alexey Steblyanko and Rosalind Plowright

Dance in Italy

Of the four works presented at La Scala, Milan by the Bolshoy Opera, the one that was unanimously voted the most curious was Rimsky-Korsakov's four-act opera-ballet ballet *Mlada*, receiving its Italian première. (William Weaver has reviewed the music).

Boris Pokrovsky's production and Valery Leventhal's scenery vie with each other in the search for excess. The sets are cumbersome and the numbers in the chorus and in the group of dancers so high that at times nearly every inch of space seems filled, even the vast Scala stage looks cramped and the action is obscured.

The story principally concerns two contenders for the love of Prince Jaromir, one of which is a purely dancing role. Princess Voyslava poisoned the Prince's betrothed on their wedding-day. Voyslava thus hopes to marry the Prince herself and he seems quite content, despite the contrast between her hoydenish ways (and solid build) and the fleet, silently reproachful movements of the shade of the dead girl, Mlada.

Mlada is implacable in her pursuit of the Prince, eventually (after calling up the spirit of Cleopatra) persuading Jaromir to kill Voyslava. After this Jaromir, too, becomes a shade, interpreted by Alexander Manahov, so at the end Mlada's is not the only danced principal role.

Shades of *La Bayadère*. But unfortunately, the ballet in *Mlada* can in no way be compared with *La Bayadère*, since Andrey Petrov's choreography for this production is only routine workmanship. As a result there are no memorable dance moments, although Nina Ananiashvili's dancing in the title role and as the more colourful Cleopatra cannot be faulted, and the many group dances are admirably executed.

Apart from the similarities with the Petipa's *La Bayadère*, *Mlada* looks forward to *The Firebird* through the presence of the Demonbastchai among the characters (sung by the chorus) and in this production, through the costumes of some of the peasants, anticipates *Le sacre du printemps*. While the music of *Mlada* is not tuneful in the manner of Italian opera of the same period, it abounds in rich sonorities for the orchestra, here the Bolshoy's under Alexander Lazarev.

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After the departure of the Bolshoy Opera at the end of October, the Tokyo Ballet moved in for a brief series of performances of two programmes, one consisting of Pierre Lacotte's reconstruction of the original version of *La Sylphide* (so much less interesting than Bournonville's later one), and the other of a contemporary triple bill.

Although over long, John Neumeier's sensitive and atmospheric *Seven Haiku Of The Moon* (using a mixture of music by Bach and the Estonian composer Arvo Pärt) was the best of the three. Each section was preceded by the offstage recitation of the Haiku, and the moon on the backcloth faded gradually during the ballet. It was above all interesting to see how Neumeier had blended East and West in this work, which was made especially for these extraordinarily well-schooled and malleable dancers.

Maurice Béjart, on the other hand, attempts to show old and new Japan in juxtaposition in his *Bugaku* – which bears no resemblance, naturally, to Balanchine's ballet of the same name, using the same score by Mayazumi. He succeeds only in limited fashion, partly on account of trying to fit too much in from robot-like baseball players to women in traditional costume. At the end two couples go through a lengthy erotic ritual that I suppose exemplifies the title the programme closed with Béjart's old warhorse *The Firebird*, which looked dated and meaningless, as it must unless given with great conviction. An orchestra from Cracow under Michel Queval's direction played the Schneitzhoeffer score, while the triple bill was given with recorded accompaniment.

Other pre-season fillers have included two very welcome ones at the Rome Opera, Rossini's charming *opera buffa L'occasione fa il ladro* in a recent Pesaro Festival production by Jean-Pierre Ponnelle (in Rome expertly conducted by Salvatore *Accardo) and a short run of* performances by Alvin Ailey's superb company. The prelude offered by the Accademia Filarmonica Romana consisted of a gala divertissement (repeated on several evenings), in which Julio Bocca and Alan Boeding – in his sculptural circle walker – were outstanding in their different styles of virtuosity.

In Florence, the resident opera-house company, Maggio Danza, appearing to taped *accompaniment at the Teatro* Verdi, tackled *Don Quixote* in Rudolf Nureyev's familiar production. The dancers performed with spirit and precision, Umberto de Luca (Basilio) showing particular promise.

Freda Pitt

Last of Ligeti

QUEEN ELIZABETH HALL

The final instalments of the South Bank's Ligeti celebration brought the British premières of his latest works, or rather significant extensions to existing compositions. Since the Horn Trio of 1982 ushered in a new phase in Ligeti's development his most substantial achievements have centred upon the piano – the set of Piano Etudes, and the Piano Concerto. In the first part of Monday's marathon Volker Banfield introduced two more of the studies, while the climax of the London Sinofnietta's contribution later was the final five-movement version of the Concerto.

Neither novelty seems to move forward our knowledge of Ligeti; though there are newly marvellous things to be found, especially in the Concerto, there is a sense that after the Horn Trio (arguably one of the finest works of the decade) Ligeti's music attained a comfortable plateau and has moved within this well-defined territory ever since. The ingredients of this late style – the punning polyrhythms, the delicate harmonic relationships – are utterly distinctive, but they offer fewer of the delicious surprises, the miracles of aural imagination, which marked out his best inventions in the 1960s and '70s.

The two new studies, "Galam borong" and "Fem," bring the sequence up to eight, each piece with its own fearsome technical problems. The first veers close to Debussyan impressionism – at times it sounds a close cousin to any number of the preludes – the second reverts to a repertoire of rhythmic displacements and freely associating triads. Banfield played the new pieces once, and then repeated them at the end of the full set of studies. Other pianists with a greater sense of keyboard colour and more vivid articulation would make the series into an enthralling pianistic feat; but he is a rather prosaic artist (the Skryabin sonatas which framed the Ligeti were dry and thoroughly unstylish) and these pieces need flair as well as virtuosity.

The Piano Concerto ended a programme in which Elgar Howarth also conducted Ligeti's Chamber Concerto and Cello Concerto (with Christopher Van Kampen as soloist), as well as Janáček's Capriccio and the British première of Kurtág's Four Capriccios Op.9. They are settings of aphoristic poems by Istvan Balint for soprano and chamber ensemble, sung herewith the usual fanatical commitment and intensity by Adrienne Csengery. She contributed so much to the effect of these slender pieces that one really does wonder of what Kurtág's reputation would consist, without such passionate advocacy and the aura of fastidious rarity that has come to surround his music.

Yet of Ligeti's enduring stature and popularity there seems no doubt. The Elizabeth Hall was full for this final concert and the Piano Concerto was received with a prolonged ovation. The extra pair of movements have created an arch form with faster first, third and fifth movements, bracketting two sharply contrasted slower ones, which contain the most striking invention. The first of them unwinds some ghostly textures in the orchestra while the piano adds a dry commentary; the second is discursive and abrupt, never settling to a single unifying idea. The remaining three flesh out the scheme, provide its propulsion and some witty musical asides; it is an accomplished work, a real concerto, and one that will travel widely and for a long time.

Andrew Clements

ARTS GUIDE November 3-9

THEATRE

London

Anything Goes (Prince Edward). Cole Porter's silly ocean-going 1930s musical has four or five marvellous songs and Elaine Paige failing to emulate Ethel Merman (836 2428).

A Life in the Theatre (Haymarket). Slight but enjoyable David-Mamet early play anglicised to reflect the last days of weekly rep and notable for the return to the stage of a silkily accomplished technician, Denholm Elliott (930 9832). Ends Dec 2.

Jeffrey Bernard Is Unwell (Apollo). Brilliant performance by Peter O'Toole as an alcoholic journalist who embodies a Falstaffian, nay-saying life force while committing public suicide by vodka. Keith Waterhouse has stitched a fine play, the season's highlight, from Bernard's own writing. Ned Sherrin directs (437 2663).

A Little Night Music (Piccadilly). Fine revival by Ian Judge, imported from Chichester, of Sondheim's 1973 schlagobers version of a Bergman film. A beautiful score, composed mostly in waltz time, is touchingly performed by Lila Kedrova, Dorothy Tutin (her best work in years), Peter McEnery and Susan Hampshire (867 1118).

A Flea in Her Ear (Old Vic). Feydeau's farce in the John Mortimer translation spiritedly done as German Expressionist nightmare by Richard Jones and the Quay Brothers, the directing and design team on WNO's *Love of Three Oranges*. Jim Broadbent leads good cast as the discomfited insurance manager and his doppelganger, a drunken hotel porter. An interesting, enjoyable, unfairly derided experiment (928 7616, cc 240 7200). Ends Nov 18.

Another Time (Wyndham's). New Ronald Harwood play, directed by Elijah Moshinsky, about a white South African family in Cape Town and Maida Vale. Albert Finney plays father and concert pianist son across 35 years, suggesting that talent is a means of escape and a reason for not going back. Janet Suzman and Sara Kestelman are electrifying in support (867 1116).

M. Butterfly (Shaftesbury). Peter Egan has taken over from Anthony Hopkins as the tortured diplomatic hero in a Peter Shaffer-style "spectacle of ideas" dressed up in John Dexter's superb production as a metaphor of homosexual life. The transvestite tragedy proves less electrifying than in New York; the play is not very good but still worth seeing (379 5399).

Aspects of Love (Prince of Wales). Andrew Lloyd Webber's latest is an intimate chamber operetta derived from David Garnett's 1955 novella. Musically interesting and well directed by Trevor Nunn, a cast of unknowns project the right sense of sybaritic insouciance. A probable, but unspectacular, hit (839 5972).

New York

Heidi Chronicles (Plymouth). Wendy Wasserstein's award-winning drama covering 20 years in the life of a successful American baby boomer goes from support for Eugene McCarthy's presidential aspirations to electoral ambitions in the 1980s, accompanied by the musical and emotional flavour of the period (239 6200).

Sweeney Todd (Circle in the Square). An intimate production of the Sondheim-Wheeler musical in contrast with the elaborate original a decade ago emphasises the descent into madness of Bob Gunton as the demon barber of Fleet Street (239 6200).

Lend Me a Tenor (Royale). A sprucing up in the set of a decaying town's big time opera ambitions makes a transatlantic hit of this farce, first produced in London, but now with a local cast led by Philip Bosco and Victor Garber (239 6200).

Jerome Robbins' Broadway (Imperial). Anyone attracted by the notion of a three hours of film trailer previews will adore this compendium of Robbins' directed and choreographed plays of the past 40 years, including On the Town, West Side Story and Gypsy. The lustre of the credits is dimmed by the brevity of each piece, with a contemporary crew of Broadway aspirants who lack the multi-talents that inspired the heyday of the musical.

Rumours (Broadhurst). Neil Simon's latest comedy is a self-conscious farce, with numerous slamming doors and lots of mugging but hollow humour that misses as often as it hits. Christine Baranski leads an ebullient cast in the inevitable but disappointing hit.

Cats (Winter Garden). Still a sell-out, Trevor Nunn's production of T.S. Eliot's children's poetry set to music is visually startling and choreographically feline (239 6262).

A Chorus Line (Shubert). The longest-running musical in the US has not only supported Joseph Papp's Public Theater for eight years but also updated the musical genre with its back-stage story in which the songs are used as auditions rather than emotions (239 6200).

Les Misérables (Broadway). The magnificent spectacle of Victor Hugo's majestic sweep of history and pathos brings to Broadway lessons in pageantry and drama (239 6200).

Me and My Girl (Marquis). Even if the plot turns on ironic mimicry of Pygmalion, this is no classic, with forgettable songs and dated leadenness in a stage full of characters. It has nevertheless proved to be a durable Broadway hit (947 0033).

M. Butterfly (Eugene O'Neill). The surprise Tony winner for 1988 is a somewhat pretentious and obvious meditation on the true story of the French diplomat whose long-time mistress was a male Chinese spy (246 0220).

Phantom of the Opera (Majestic). Stuffed with Maria Bjornson's gilded sets, Phantom rocks with Andrew Lloyd Webber's haunting melodies in this mega-transfer from London (239 6200).

Chicago

Driving Miss Daisy (Briar Street). The touching relationship between a dowager, played in this production by Dorothy Loudon, and her black chauffeur exposes the changes in the South over the past several decades (348 4000).

Steel Magnolias (Royal George). Ann Francis and Marcia Rodd play the leads in this view of southern life from under the dryers in a busy hairdressing establishment (988 9000).

SALEROOM

Penny blacks make six figures

Harmers yesterday sold a mint block of thirty six 1840 Penny Blacks for £308,000, a record for any stamp item in the UK. In 1934 Harmers knocked them down for £525. The earliest known Penny Black, postmarked Bath May 2nd, four days before the official launch in 1840, sold for £55,000.

Phillips' most important house sale for years, the contents of The Abbey, Aston Abbotts, near Aylesbury, got off to a cracking start yesterday with a price of £170,500, over twice the estimate, paid for a 17th century Italian Pietra Dura and Scagliola Marble top on a Regency carved giltwood and brass table.

A pair of early 19th century Russian gilt bronze mounted malachite candelabra also doubled forecast at £57,200. After 337 lots of furniture in a three day, 1366 lot auction, Phillips had produced a total of £863,830, more than its estimate for the entire sale.

Christie's South Kensington yesterday was selling one of the finest collections of early textiles, formed by Leopold Ikle from the Hamburg textile family and a set of six linen panels embroidered in coloured silks and showing scenes from the life of Christ sold for £35,200. It was produced in North Germany in the 14th century.

Antony Thorncroft

Whitbread Prize shortlist

The Whitbread Book of the Year will be chosen from the following five category winners: Novel: *The Chymical Wedding* by Lindsay Clarke; First Novel: *Gerontius* by James Hamilton-Paterson; Poetry: *Shibboleth* by Michael Donaghy; Biography: *Coleridge: Early Visions* by Richard Holmes; and Children's Novel: *Why Weeps the Brogan?* by Hugh Scott.

The first prize is worth £20,250, marginally less than the Booker, and each category winner received £1,750 yesterday. The list is intriguing, especially the choice of novel – Martin Amis misses out again, to a book which plays with different, but conflicting, time zones. The winner, announced in January, could be *Why weeps the Brogan?* if only because a children's novel has never won the Whitbread. A.T.

FINANCIAL TIMES
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Sweden's tax reform

SWEDEN'S long-awaited tax reform, unveiled yesterday, hardly matches up to its advance billing or to the country's needs. The prime minister, Mr Ingvar Carlsson, and his finance minister, Mr Kjell-Olof Feldt, seem well pleased with the results and, politically, their delight is understandable. Not for the first time in Sweden the ruling Social Democrats have divided their enemies and renewed their sense of purpose. But the final proposals of what had been heralded as the biggest shake-up of the country's tax system in 100 years are not especially radical.

After 1991, when the second stage of the reforms comes into force, the tax burden on most Swedes will still be among the highest in the world. Their take-home pay will be higher, but they will also face higher indirect taxes on a much wider range of goods and services, as well as tighter limits on tax allowances and increased taxes on capital and property. These new burdens will more than compensate for the abolition of central government income tax for the majority of Swedes, who will have to pay at least 30 per cent of their income in taxes to the local authorities.

Many of the anomalies that plague the existing system, making it both inequitable and inefficient, will undoubtedly disappear after 1991. But the costs of funding the country's huge public services sector, based on universalist principles of provision, will continue to eat into Sweden's financial resources.

Economists divided

Indeed, it is hard to believe that the new tax system will last for very long without further adjustment. Economists remain divided about just what the incentive effects of the tax changes will be on the individual. Many doubt that they provide a solution to the country's growing economic troubles – lack of competitiveness, low growth of labour productivity and high wage cost inflation, and a soaring current account deficit.

Mr Feldt and his colleagues do not conceal their fear that the tax reforms could unleash a further boost to household purchasing power on to an already overheated economy. This is why they have been so keen to ensure that income tax cuts are self-financing, through the imposition of tax increases elsewhere, and are staged over two years, with the bigger slice coming in 1991. Consequently, it is hard to see the package having a noticeably beneficial impact on the dangerously high level of wage settlements now being negotiated in the public sector.

Sovereignty

Moreover, Sweden's tax reforms cannot be viewed in isolation from developments inside the European Community. Mr Carlsson and his colleagues have made it clear that their country will not be seeking full EC membership, because such a move would infringe Swedish neutrality in defence and foreign policy. But they are keen to build a wider "economic space" in Europe, through an agreement between the European Free Trade Association and the EC, and accept that this means a loss of Swedish sovereignty over some economic decisions.

At some stage, for example, there is likely to be pressure on Sweden to lower its levels of indirect taxation and so bring them more into line with the much lower average indirect tax burdens inside the EC. As the only Nordic member of the EC, Denmark is already wrestling with the considerable difficulties this poses for a country with a high level of public expenditure.

None of these reservations detracts from the significance, for Sweden, of the Government's attempt to reform a system that has long penalised effort and thrift, while encouraging subterfuge. But nobody should retain any illusions. This is only a necessary first step towards the closer integration of Sweden with the rest of western Europe during the 1990s. Thanks to Mr Carlsson's consensual style of governing, the reform has so far been achieved with a remarkable degree of national unity. But whether this unity will survive for very long after 1991 must remain doubtful.

Judgment on swaps

TO THE non-expert observer the recent High Court ruling on swap market dealings by the London Borough of Hammersmith and Fulham looks an altogether arcane affair. Yet the court's decision that the council had exceeded its legal powers in making use of sophisticated financial instruments requires several British local authorities to contemplate the unthinkable: they may now, on legal advice, dishonour debts owing to banking counterparties in the interest rate swap market. The potential losses to the banks, which have been estimated at £500m at current interest rates, may not be on the scale of the recent International Tin Council saga, in which several sovereign states defaulted on their obligations. Nor is the issue closed, since the case goes to appeal in mid-January. But the current confusion reflects none too well on the way this market has been managed. And a question mark hangs over some authorities' calculations of the poll tax.

The problem has arisen because the legislation that governs the local authorities' capital market operations predates the development of swaps and other off-balance sheet financial instruments. Under the 1972 Local Government Act local authorities are granted the power to borrow; and much respectable legal opinion suggested that provided swap transactions were designed to facilitate debt management, they were lawful.

Last week the court ruled not only that speculative trading could not be construed as helping debt management but that prudent risk management fell outside that category too. It was not for the court, said Lord Justice Woolf, to confer on the council powers not given to it by the Act.

Foreign bankers

This narrow interpretation has left market participants concerned that seven years worth of swaps may have to be unwound. And foreign bankers are incensed, having dealt on the basis that a local authority's word was its bond.

The role of the market authorities takes some explaining. Admittedly the Bank of England only acquired legal powers in relation to the swaps market in April 1988 under the Financial Services Act, which is astonishing in itself. But it is hard to believe that the combined forces of the Bank, Treasury and Audit Commission could not have found some way of clarifying the legal position at an earlier date.

Still stranger is the fact that the Audit Commission received conflicting legal opinion on whether risk management was *ultra vires*, but chose to run with the opinion that encouraged continued swap market activity.

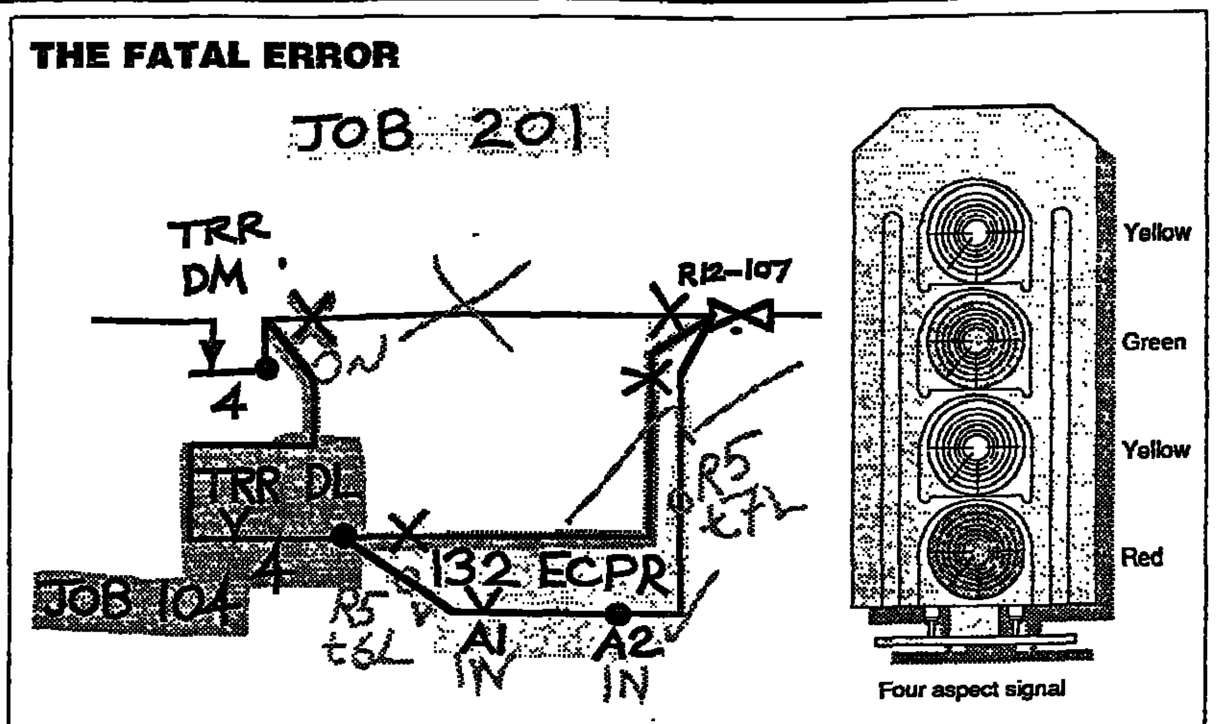
Financial improvidence

The outcome to date is that financial improvidence at Hammersmith and elsewhere has been rewarded. And the court's ruling flies in the face of the logic of the poll tax, whereby ratepayers are responsible for their council's actions. So why has the government failed to intervene to ensure that existing contracts are honoured? Straightforward enabling powers, together with the extension to local authorities of the "safe haven" clause in the 1985 Companies Act, which provides protection from deals being declared *ultra vires*, might seem appropriate.

Yet the government is understandably reluctant to contemplate retrospective legislation. And the cost of setting up a regulatory structure for the handful of local authorities competent to deal in swaps might be substantial. Nor is it easy for such a structure to draw a sensible line between speculative trading and sound hedging. In the case of the building societies, which are allowed to hedge but not to trade, bank counterparties in the swap market are worried that they have no means of telling what the building societies are up to.

The case for government intervention rests on the damage to London's role as an international financial centre and the problems that the High Court ruling may pose for local government financing. But only a very limited area of the financial markets is involved. And the problem does not have a major impact on local authorities' credit standing: it is a legal risk, not a credit risk.

The government's handling of the issue so far leaves much to be desired. But it could be excused for hanging fire until the Appeal Court pronounces.



The working diagram, showing pencil additions, for jobs 104 and 201 carried out by senior signals and telecommunications technician Mr Brian Hemingway in the relay room at Clapham Junction. Errors made by Mr Hemingway remained undiscovered because of insufficient managerial control and subsequently caused a signal like the one above to malfunction, leading to the loss of 35 lives on Dec12 1988

Kevin Brown on problems faced by BR in the light of the report on the Clapham disaster

Bleak signals for the future

British Rail is not just in a mess; it is in a dangerous mess. Anyone who doubts that conclusion need only read the 230 pages of evidence published yesterday by Sir Anthony Hidden QC, chairman of the public inquiry into the deaths of 35 people in the Clapham railway disaster last December.

Sir Anthony paints a detailed picture of a railway the staff of which is underpaid, overworked, and often unfitted for their jobs: of managers either incapable of exercising proper supervision of vital work, or unwilling to do so; of investment projects deferred because of rigid government regulations; and of trade unions guilty of "entrenched resistance to change."

But his most shocking finding is that these problems are not the fault or responsibility of any one person. They are not specific difficulties which can be solved by a partial reorganisation, or the sacking of senior managers. They are "historic to the railway culture and method of organisation."

Sir Robert Reid, BR's chairman, accepted the findings of the report promptly yesterday, and said steps had already been taken to ensure the tragedy could never happen again. It is also true that serious accidents have not been unique to BR in recent years. There has been a series of disasters in UK public transport since 1987 which has cost several hundred lives – the loss of the P & O ferry, Herald of Free Enterprise, the M1 air crash, the King's Cross fire on the London Underground, and the sinking of the Thames pleasure boat, Marchioness, are only the most serious.

None of the operators involved in these disasters seems to be as accident-prone as BR, which suffered two other serious crashes – at Glasgow and Purley – within days of the events at Clapham. But it is not just in safety that BR's record leaves much to be desired.

The corporation's management suffered a serious defeat at the hands of its workforce during the summer, when a series of strikes by manual workers forced BR to raise its initial annual pay offer of 7 per cent to 8.8 per cent. That defeat led to a fudged agreement to review BR's plans to link pay more closely to demand, and is likely to perpetuate the corporation's difficulties in attracting and keeping skilled staff. It also fatally undermined what little credibility BR had with the Government, and is the root cause of the imminent departure of several senior executives.

BR has also been the butt of public contempt in south-east England for more than a year over its frequently changed plans for a high-speed line from London to the Channel Tunnel. That argument is not yet over, and there remains significant unrest, particularly in Kent and south-east London, over the corporation's refusal to consider other options. BR has announced a deal with the private

> **The difficulties cannot be solved by sacking senior managers, but are historic to railway culture and method**

sector to set up a joint venture company to build and run the line, but the revelations in Sir Anthony's report do not support its claim to be the only competent authority to select a route.

There are a number of reasons why BR seems unable to get it right. The first, and perhaps the most long-standing, is the chronic underfunding of the railways since the war. The report does not address this question, except to note BR's own evidence that specific safety investment is not constrained by a lack of funds. However, this does not deal with the impact of under-investment on the fabric of the railway, and therefore on the general level of safe operation throughout the system.

Public investment in Britain's railways is significantly less than comparable investment in continental railways such as the SNCF in France, and the Bundesbahn in West Germany. The discrepancy is illustrated by figures produced by the Union International des Chemins de Fer (European Railway Union) showing that average public support for European railways in 1987 was 0.68 per cent of gross domestic product, compared to 0.27 per cent in the UK. The gap is likely to widen, since the Government is deliberately squeezing BR's revenue subsidies, which have been cut by 51 per cent in real terms in five years.

The Government says its policy is intended to prevent BR turning into the sort of bloated railway monster it sees on the Continent, and maintains that the financial squeeze is encouraging BR to behave in a more business-like fashion.

Mr Paul Channon, the former Transport Secretary, told the House of Commons at the time of the Clapham accident, that "a record amount of investment is currently taking place in British Rail." This line was repeated yesterday by Mr Cecil Parkinson, the present Transport Secretary, who told the Chartered Institute of Transport: "We are witnessing a level of activity and development on railways of every type that has not been seen for decades. We are seeing what is truly the renaissance of the railway." As far as British Rail is concerned, there are good grounds for questioning this view.

It is true that capital investment is on a rising trend, but research carried out by Mr John Wells, a Cambridge lecturer in economics, raises doubts about the Government's complacency. Spending is at "an all-time high," as Mr Channon also claimed, only in current price terms – that is, not adjusted for inflation. Using the gross domestic fixed capital formation deflator, Mr Wells has shown that capital investment in the period 1981-1984 fell in real terms to the lowest level recorded since the war. Even taking into account the recovery in spending since 1984, annual investment is still considerably lower than in the mid-1960s, and has not even recovered to the low levels of the crisis-prone Labour Administration from 1974 to 1979.

The level of investment matters because it has a direct impact on the renewal of the physical framework of the railway. The Centre for Independent Transport research in London (CILT), an independent unit funded by the London boroughs, claimed yesterday that signalling on part of the Marylebone-Banbury line is still operated by 70-year-old semaphore signals worked by a system of weights and pulleys, and illuminated at night by hand-lit paraffin lamps. CILT says there have been 70 reports of signal irregularities on this line since April.

More pertinent to the Clapham report, the system for stopping trains which pass red lights without permission, known as Automatic Train Protection, was never installed throughout the BR network because managers could not make a sufficiently attractive financial case for it.

The Government's squeeze on revenue subsidies also has the effect of forcing BR to dispose of all workers who are not absolutely essential, such as by de-staffing stations on the Southern region, and to pay the remainder as little as possible, even where this means it cannot compete for vital skilled staff such as signals and telecommunications engineers. Thus BR is almost permanently short of skilled staff and many employees are regularly asked to work overtime for projects to be completed.

Evidence given to Sir Anthony's inquiry indicated that many signalling and telecommunications staff working in the Clapham area at the time of the accident had been working seven days a week, some for as much as three months with hardly a day off. The railway trade unions claimed these men were forced into this kind of work pattern by their relatively low basic wages. At the time of the crash, the basic pay for a BR signalling technician was between £166.06 and £178.65 a week, compared with between £207.54 and £254.92 for the comparable British Telecom grade.

The report does not accept the unions' claim that any of the signalling and telecommunications staff involved in the Clapham project were physically tired by their work schedules. However, the report says the overtime required of the men did affect Mr Brian Hemingway, the technician whose wiring error was the immediate cause of the accident, by blunting his concentration.

"It was a practice which had, in fact, been going on for years in British Rail, and was one which was well known to management. It should not have been countenanced, and it was a direct cause of the accident," the report says.

But there are other closely linked problems, more difficult to overcome.

The first is BR's apparent inability to make up its mind about an issue and then stick to the agreed policy. Sir Anthony's report identifies several examples of this, including frequent reorganisations of the signalling and telecommunications department, leading to low morale and operational inefficiency, and the failure to install ATP throughout the network, even after a top-level decision to do so had been taken after the loss of 112 lives in the Harrow train crash in 1952.

Part of the reason for this vacillation is the constant staff shortages which mean that managers are rarely in the same job long enough to see it through. But the tone is set at the top by the constant interference of ministers in policy formulation.

A good example is the high-speed line fiasco, which has brought BR into public disrepute. Yet it was the Government which intervened on political grounds to force BR to include environmental improvements which made the original scheme uneconomic. Similarly, ministers privately criticised managerial incompetence during and after the pay dispute, but it was the Government which forced BR to make an offer it had said would be unacceptable.

The tensions inherent in this relationship have militated against strong independent management in the railways, and helped to undermine BR's intermittent efforts to get to grips with problems such as staffing.

BR has made some attempts to change the distinctive "railway culture" to which the report refers, with mixed results. Decentralisation of the railway in to business sectors such as InterCity and Network SouthEast has introduced some modern marketing and customer service ideas. But the changes have been partial and have been offset by the inability to rebuild the fundamental relationship between staff and management.

Sir Anthony's report shows that the performance of middle management has been equally open to criticism, partly because of the traditional structure of the railway promotions system, which means that the only way to rise through the hierarchy is to start at the bottom and work up. Sir Anthony appeals to management and unions to work together to find a way of recruiting new senior staff from outside, especially to fill senior vacancies for skilled staff, but notes with regret "how obvious and how deep was the mistrust and suspicion" between employer and unions.

The question facing Mr Parkinson today is where BR goes from here. He has asked BR to report back within three months on its progress in implementing the report's 93 detailed recommendations. But the long-term future of the railway is less clear.

> **The report noted with regret how obvious and deep was mistrust and suspicion between BR and the unions**

Privatisation would allow the Government to hand over the whole problem to the private sector, but will probably be delayed for several years by the weakness of BR's balance sheet and the difficulty of framing legislation.

The next step will probably be up to the new chairman who has to be appointed before March to replace the retiring Sir Robert. Headhunters have drawn up a shortlist after a number of initial rebuffs, but Sir Anthony's report will not make the task of finding a suitable candidate any easier.

New head for the Fabians

■ The Fabian Society, the oldest of Britain's political think tanks, is about to have a new general secretary. He is Simon Crine, who was previously director of the National Campaign for the Arts.

Crine will take over in March and is already talking about stressing economic policy. "We have to be able to say what we mean when we talk about introducing controls," he says. He calls himself an agnostic on Europe, and indeed his views are not dissimilar from those of the Prime Minister. For instance, he says that we should take European questions "issue by issue". He does not think that entry to exchange rate mechanism of the European Monetary System would guarantee an improved economic performance.

Crine stayed out of the great Labour defence debate over the last few years. "Fortunately, I missed the argument because I was too busy with the arts." But he is happy with the present defence policy, which rejects the idea of giving away something for nothing.

He says that the Party is now united in a way that he has not previously known. The policy review begun by Neil Kinnock after the 1987 general election has provided a first base. "It is up to the Fabian Society to help fill the policy gaps."

Crine should be good at lobbying and getting publicity. He was made director of the National Campaign for the Arts in 1985 by some of the bigger figures on the arts scene in order to make the arts "a news page issue", which they have certainly become.

Before that, he was research assistant to Albert Booth, the former Labour Employment Secretary who lost his seat in 1983. (Booth, incidentally, now has the humble job of Public Transport Officer to Hounslow Council, having turned down the offer of a peerage.)

Crine was originally spotted by Frank Field, who took him on at the Low Pay Unit, so no-one can say his background is not eclectic. He is now 34, will be paid about £20,000 a year and wants the Fabian Society to get back into the business of producing ideas that are taken up by governments. "The Fabians should be able to do for Labour what the Institute for Economic Affairs did for the Tories." They now have just over 4,000 members.

OBSERVER

Mauve is in

■ Slight clash in Hong Kong yesterday: the Princess of Wales arrived in a stunning outfit consisting of a mauve skirt, a scarlet jacket and a hat combining the two colours. Lady Wilson, the wife of the Hong Kong Governor, turned out to meet her, also dressed in mauve.

Becker's way

■ Some changes in the items which go into the shopping basket that makes up the West German consumer price index. Black and white television sets have been removed; so have men's pyjamas. New entries include tennis racquets and carrot juice. Real Boris Becker.

Fund for sale

■ Paul Myners does not deny, when questioned, that British & Commonwealth is disposing of Gartmore, its fund management subsidiary, because B&C needs to reduce its debt. What he hopes is that the purchaser will buy him and his Gartmore staff intact.

Myners, now 41, is a former

"If you car's been stolen, it could be anywhere in the west by now."

financial journalist who once wrote the Questors column in the Daily Telegraph. He moved on to N M Rothschild. John Gunn, the head of B&C, plucked him up from there and made him chairman of Gartmore in 1985. According to Myners's figures, the company was then worth just under £20m. Now he says that the bidding should start at around £130m.

In conversation yesterday, he said that he would prefer it to go to a British buyer: "I'm waving a small Union Jack." Then he withdrew, and said that it would more realistic to expect the buyer to be foreign: "Gartmore is an international business, which happens to be based in Britain."

Until yesterday he had not thought of a management buy-out. Once the news of the disposal was known, however, there were some out-of-the-blue telephone calls from people offering to help – "impressive names," he adds, "though I don't have that much money".

He will be consulting the 500 or so staff. Still, his own preference is that the firm should be acquired by a company that would allow it to get on with its own business, rather as B&C did. Probably it would be an institution from the US, Australia or Japan. Myners expects the deal to be complete by February.

All change

■ One of the reasons why British Rail is in trouble may lie in the extraordinary habit of successive British Governments of changing the Transport Minister or Secretary whenever there is a cabinet reshuffle.

There was once a Minister called Ernest Marples who stayed for five years (1959-64) and is still remembered today. The now Lord Peyton also had a long stint under the premiership of Eward Heath.

The Labour Government of 1964-70 moved through Tom Fraser, Barbara Castle, Richard Marsh and Fred Mulley. When Labour returned in 1974, it went through Fred Mulley (again) and John Gilbert before William Rodgers was made Secretary of State – as distinct from Minister – and allowed to stay until 1979.

Mrs Thatcher's administrations have been no better. We have been through Norman Fowler (first as Minister, then as Secretary of State), David Howell, Tom King, Nicholas Ridley, John Moore, Paul Channon and now have Cecil Parkinson.

Apart from anything else, there seems to be some confusion as to whether Transport is a job for a good prospect on the way or up, or a failing Cabinet member on the way down. Not a way to run a railway.

Fine distinction

■ Card in a Brighton shop window: "Elderly widow would like to meet similarly placed ladies for pleasant evenings or bridge."

Leslie Colitt on the run-up to the East German resignations

A party shaken to its core

The sheer survival of the ruling Socialist Unity (Communist) Party of Germany – the SED – is at stake.

Shaken to its foundations by powerful protest demonstrations in cities and towns across East Germany and an economically crippling exodus of citizens to the West, the party faces its most serious crisis since its formation in 1946. The opposition, while euphoric at its success on the streets, has been surprised at the speed of the erosion of the ruling party.

Yesterday's resignation of the entire Government under Prime Minister Willi Stoph appeared to be a bid by the new East German leader, Mr Egon Krenz, to shift as much blame as possible for the country's precarious situation onto the Government. But in the neo-Stalinist East German system the Government merely executes the policies of the Party's leadership. A new Government will be unable to carry out real reforms until the orthodox party itself has been reformed.

A crucial meeting of the Central Committee of the SED under Mr Krenz, opens today. Originally, the three-day session was to have simply approved the removal from the Politburo of the aged cronies of Mr Erich Honecker, the former leader who resigned in disgrace last month after the first wave of unrest. But the mass demonstrations of recent days in East Berlin, Leipzig and other large cities have dashed any hopes that Mr Krenz's pledge of a "Wende" (new era) will gain credibility among the country's aroused citizens.

Memories are too fresh of Mr Krenz's role as deputy to Mr Honecker in the old era. Thus Mr Krenz has become virtually as great a liability for the deeply demoralised Party as was his predecessor. The question now being asked in the Party is who among senior SED officials can gain the confidence of the people.

For decades the Party was a stronghold of the most orthodox of communists, expelling anyone suspected of wanting reforms. Inevitably, many of the placards and banners held high by the protesters in East Berlin called for the Party itself to step down. For the first time East German flags were held up with a hole in the middle where the Communist emblem had been cut out. What was left was identical to the black, red and gold flag of West Germany.

The demonstrators who made their way to East Berlin's Alexanderplatz this week seemed of one mind that only one prominent SED official stood a chance of conducting a dialogue with the people. He is Mr Hans Modrow, the reform-minded Party First Secretary of Dresden District, who is virtually certain to join the Politburo this week. But many in the crowd doubted that even he was capable of providing the changes East Germans wanted. Middle and lower-ranking Party officials, unable to cope with the torrent of demands from factory and office workers, have for months favoured Mr Modrow and not Mr Krenz as General Secretary of the SED. But after the latest demonstrations they regard the modest reformer from Dresden as the sole hope of saving the Party.

Caught up in the wave of pro-democracy demonstrators last Saturday which surged toward the Alexanderplatz, Dr Frank Rauhut, a long-time SED dissident, said: "In 40 years this Party was inwardly corrupted. Now the sickness must be treated, not the symptoms." He and a growing number of other rank-and-file SED reformers are calling for a special Party Congress which, under the SED Statute, may be held when one-third of Party members oppose the leadership's policies.

Such a Party Congress could elect a wholly new Central Committee and Politburo, flushing out the conservatives. Mr Modrow, in this view, could then be elected to replace Mr Krenz as General Secretary of the Party. Only a week ago, this would have been dismissed as fantasy. Today it is plausible in a Party which has begun to unravel and whose 2.3m members (one in eight East Germans) are seriously worrying about their place in the new political constellation.

But what did the demonstrators in the street think about a Party reformer leading the country? While I interviewed Dr Rauhut and other reform-minded SED members, large numbers of demonstrators gathered around us to listen. "The people want free elections" one young man said sharply in the direction of Dr Rauhut. "We want a strong social democracy" another man noted. "Ask the people what they want" other voices chimed in. Dr Rauhut advised patience. "Are you serious, don't you see everything is in ferment," a man in his early 20's said. "We have two groups in this country, the suppressors and the suppressed" another man joined in. A woman Party member raised her voice in defence: "I am a comrade . . ." she began but got no further. "Away with the SED, free elections" the crowd repeatedly chanted and held up signs called for an end to the Party's leading role.

One of the speakers who addressed the immense crowd on Alexanderplatz, the opposition activist and theologian from Wittenberg, Mr Friedrich Schorlemmer, warned that demands for revenge and retaliation against the Party would not be tolerated. "We cannot and do not want to build the GDR without the SED. But it must not lead the country" he said to the approval of the crowd. But people are unlikely to listen even to reformers in the Party if the SED rejects a power-sharing arrangement with the opposition. Until now the Party has only indicated it might re-consider its refusal to legalise the largest opposition group, New Forum.

No-one appears more surprised than the opposition by the helplessness of the SED as it is buffeted by waves of popular protests. Opposition leaders – the highly diverse opposition actually has no leaders but merely co-founders – were remarkably reticent in pressing demands for reforms. They preferred instead to let the hundreds of thousands of peaceful and largely good-natured protesters articulate them. Thus far the strategy has worked brilliantly. Intellectuals have managed to ignite a spark in millions of their countrymen in what may become the closest thing to a revolution Germany has ever experienced.

Mr Jens Reich of New Forum, with more than 100,000 members, noted yesterday that the opposition's immediate aims were to achieve freedom of the press, a reform of the legal system – especially "political" crimes – and a reformed electoral system which would allow the opposition to contest elections for the first time in 1991. The Party would have to give up its "leading role" and share power with the opposition. Intense pressure for reforms was bearing on the SED not only from the demonstrations but also the mounting exodus of East Germans to the West. The Party appeared ready to accept the economic consequences of free travel and mass emigration in the hope of gaining the confidence of the people which it so desperately sought. Mr Reich noted, however, that only the "boldest reforms" could gain the trust of the people. But he warned that at present there was "no alternative" to the Party and that without it the country would "fall into chaos."

Instead, the opposition wants to forge links with reformers in the SED who aim to replace democratic centralism with democratic socialism. This was the dream of German Communists in 1945 who spoke of a "third path" – between capitalism and Stalinist Communism – for East Germany.

But what type of socialism did the demonstrators want? Five young workers who were among the demonstrators last Saturday in East Berlin said it had to be a "greatly improved" socialism. It would consist of a market-oriented economy where performance counted. Small private companies would exist next to large firms. And there would be freedom of expression and free elections they all agreed.

Hans Modrow, the Dresden Communist Party leader, talks to the people

Andrew Glyn on the UK's investment in manufacturing and services

Extraordinary contrasts

One of the claims of the Government is that it has presided over an investment boom. Indeed since 1981 real business investment has grown by more than 7 per cent a year. Taking the more meaningful starting year of 1979, the growth rate has still been over 4 per cent a year, getting on for double the growth rate of the previous decade.

Much has recently been made of the growth of manufacturing investment (up by about one third since 1986). Since investment is the decisive prerequisite for sustaining a balanced expansion of productive potential, the make-up of this expansion of investment deserves further investigation.

Table 1 presents the information for business investment, divided up into industry and agriculture on the one hand ("material production") and services on the other. There is a quite extraordinary contrast between material production, where investment was still below the level of 1979 in 1988 (the latest period for which full data is available) and the services sector where the level of investment has practically doubled.

These divergent trends are reflected in the growth rates of the capital stock, the decisive indicator of the degree of investment effort. In 1988 the capital stock was growing more than ten times as fast in the services sector as in industry and agriculture.

Table 2 shows that a declining or stagnant level of investment characterises all the components of material production. In 1988 the growth of the manufacturing capital was a paltry 1.1 per cent a year. Even the increase in manufacturing investment expected for 1989 would hardly take the growth of the capital stock up to 1.5 per cent. A much longer period of sustained investment increase is necessary. Otherwise manufacturing capital stock growth will stay far below that of competitors (it was less than half that of Europe in 1987 and only a fifth of the Japanese rate).

Table 3 shows that not all the services sector has shared in the investment boom. Transport, which is of course an essential adjunct of goods production, has been starved of investment. Distribution has showed strong capital stock growth. But it is banking, insurance, finance and business services where growth has been phenomenal with the stock of capital (buildings, computers etc) growing by almost 10 per cent in 1987. It is very likely that the 1988 figures when made available (the current account National Income Blue Book is mysteriously unable to provide the data) will show an increase of investment in this sector of some 200 per cent since 1979.

It would be a fantasy to believe that finance and business services can take over from manufacturing and generate the foreign exchange necessary to pay the import bill. In 1988 the service earnings of the City were £4.6 billion; if its investment earnings are added the total comes to £7.3 billion (down from £9.7 billion in 1986). Consultancy earnings abroad by engineers and others were worth another £1.8 billion. Despite being given great prominence in the Balance of Payments Pink Book, these sums are insignificant as compared to visible exports (£90.6 billion in 1988). They could thus never make up for poor manufacturing trade performance resulting from the neglect of investment in process and product innovation.

Of course distribution, and that substantial part of the financial sector concerned with financing the purchase of consumer and capital goods, do facilitate the sale of manufactured products. But the share of such goods produced outside the UK will continue at an unsustainable level if the investment resources channelled into the fundamentally dependent service sectors continues to be so wholly disproportionate.

The author teaches economics at Corpus Christi College, Oxford University

Table 1	Business investment	
	Gross Investment % change 1979-88	Growth of Gross Fixed Capital stock, 1987-1988 %
Total Business	37.4	3.1
Industry & Agriculture	-8.4	0.6
Services[1]	93.1	6.9

Table 2	Material Goods Investment	
	Gross Investment % change 1979-88	Growth of Gross Fixed Capital stock, 1987-1988 %
Agriculture	-7.2	-0.7
Oil and Gas	-38.5	0.0
Energy and Water	-1.6	0.3
Manufacturing[2]	0.6	1.1
Construction[3]	-23.5	0.0

Table 3	Services Investment	
	Gross Investment % change 1979-87	Growth of Gross Fixed Capital stock, 1986-1987 %
Distribution and Catering	43.9	5.3
Transport	-17.4	-2.3
Communication	51.6	2.6
Banking and finance[4]	125.5	} 9.1
Business Services	148.4	

[1] Services excludes 'other services'
[2] Manufacturing includes assets leased
[3] For construction the data refer to 1979-87 and 1986-87
[4] Data for Banking and Finance excludes leasing of assets

Source: United Kingdom National Accounts, 1989 edition

LETTERS

Only Germans can decide

From Mr Friedrich Merz MEP.

Sir, The Financial Times should be thanked for its detailed discussion on the German question (October 27, November 6). The European Parliament, too, considered the division of Germany at length, last month, and was overwhelmingly in favour of all Germans being granted the right of self-determination.

The Federal Republic – West Germany – continues to adhere to the aim of a united Germany in a united Europe. This is enshrined in our constitution, the Basic Law. But there is no doubt that only the inhabitants of what is currently the German Democratic Republic – East Germany – will have to decide in free self-determination what path they want to take.

If the Federal Republic and the GDR are to be united in this way to form one state in the near future, we shall need public support from Britain, France and the United States in particular. Should the Germans in East and West Germany gain the impression that the western allies have only been paying lip service to the aim of national unity, because they felt sure that the division of Germany would in any case persist for ever, large sections of the population will turn away from the West in disappointment.

Those politicians who then appeal to latent feelings of German nationalism will be more successful, in all parties, than those who demand that the Federal Republic should be integrated ever more closely into the European Community. It is therefore in the interest of the EC and its member states to do all they can to support both the process of European integration and the process of German national unity.

And the more political sovereign rights are ultimately transferred to the Community, the less will the economic strength of one individual member be capable of dominating the European continent or even destabilising it.

Friedrich Merz,
*5300 Bonn 1,
Bundeshaus,
West Germany*

More links than one

From Mr Peter Beales.

Sir, The juxtaposition of the UK Government's decision not to support an environmentally acceptable Channel Tunnel rail link and Mr Nigel Lawson's resignation from the Chancellorship is illuminating.

Mr Lawson leaves office having failed to persuade the Prime Minister to abolish one of the most pernicious subsidies in supply-side terms: mortgage interest relief. Mr Cecil Parkinson, on the other hand, still resident at the Department of Transport, refuses to allow limited state subsidies to mitigate the effects in inner London boroughs of the rail link, an infrastructural development which will surely benefit the nation as a whole. British Rail is therefore forced to return to its plans for an overland route, with all the blight that will entail.

Unless a serious attempt is made to attack subsidies consistently, the suspicion will remain that Mrs Thatcher still leads an administration governed by *expediency* rather than principle. No doubt voters in marginal south-east London seats will take note.

Peter Beales,
111 Turney Road, SE21

Corporate ultra vires

From Mr Philip Goldenberg.

Sir, In my article published in the FT on October 23 relating to the Government's attempted reform of the law of corporate *ultra vires*, I argued that the then text of the Companies Bill failed in its proclaimed objective of allowing a company to adopt a short form of memorandum of association.

I dissent from Mr Harvey Cohen's view (Letters, October 31) that amendments on this point, tabled by the Government, dealt with the problem I had raised in my article.

The position is now as follows:

A "general commercial company" will have power "to do all such things as are incidental or conducive to the carrying on of any trade or business by it." It will also be provided that the validity of an act done by a company shall not be called into question on the ground of lack of capacity "by reason of anything in the company's memorandum."

The only interpretation that can reasonably be put on the latter provision, which refers to "something *in* a company's memorandum" (and not to anything omitted therefrom), is that a provision in a company's memorandum prohibiting it from doing a particular act may be disregarded. This does not, as it seems to me, confer an unquestionable power to do anything not incidental or conducive to the carrying on of its trade or business.

It follows that my critical analysis stands, and I regret that the Government did not adopt the approach set out in my article, namely providing that a general commercial company should have the power to do any act whatever, subject to any express limitations on its powers in its memorandum of association.

Philip Goldenberg,
*S.J. Berwin & Co,
236 Gray's Inn Road, WC1*

Lloyd's 'names' might use their pocket calculators

From Mr John Crowley.

Sir, Such is the complexity of Lloyd's of London syndicate accounts that most "names," and even members' agents, probably take them on trust. I happened to have the accounts of two syndicates, together with the associated personal statements, to hand on a rainy weekend. They covered four trading years because of a "run-on" situation.

Checking my personal statements, reworking extensions, additions and subtractions, and making comparisons with accounts from the previous year, the result surprised me. Over the three years there were over 30 purely mathematical mistakes, ranging from a few pence to nearly £50. Most were in intermediate figures. In one case the basis of a "cash call" was found to be inaccurate to a point where, if repeated in all personal accounts, it would have benefited the underwriter by over £5,000. Most errors were to my disadvantage. Again, in the main audited accounts and the various analyses offered, I found significant inconsistencies and apparent errors.

Intermediate figures in personal statements are important. I found two errors totalling a shortfall of £70 in investment income. Because there was an overall loss, I would have failed to have recovered the associated tax.

Acceptance of personal statements is not the end of a "name's" involvement. Accountants, often using the intermediate figures, must calculate income tax adjustments and recoveries. Stop loss claims must be agreed with brokers. If both use the personal statements, the result will be wrong – and the "name" is responsible for false claims or returns submitted by his/her personal agents.

My findings are disconcerting. They suggest that underwriters do not hold their "names" in much respect. Alternatively my findings suggest that standards leave much to be desired: if annual accounts are inaccurate, what is the quality of day-to-day accounting? But perhaps it is ungentlemanly to expect accounts to be accurate to a penny, even if they are presented to the nearest penny and contain separate ledger entries of as little as three pence.

John Crowley
*157 Avalon Avenue,
Flagler Beach,
Florida 32136, USA*

Automatically individual

From Mr P.J. Howarth.

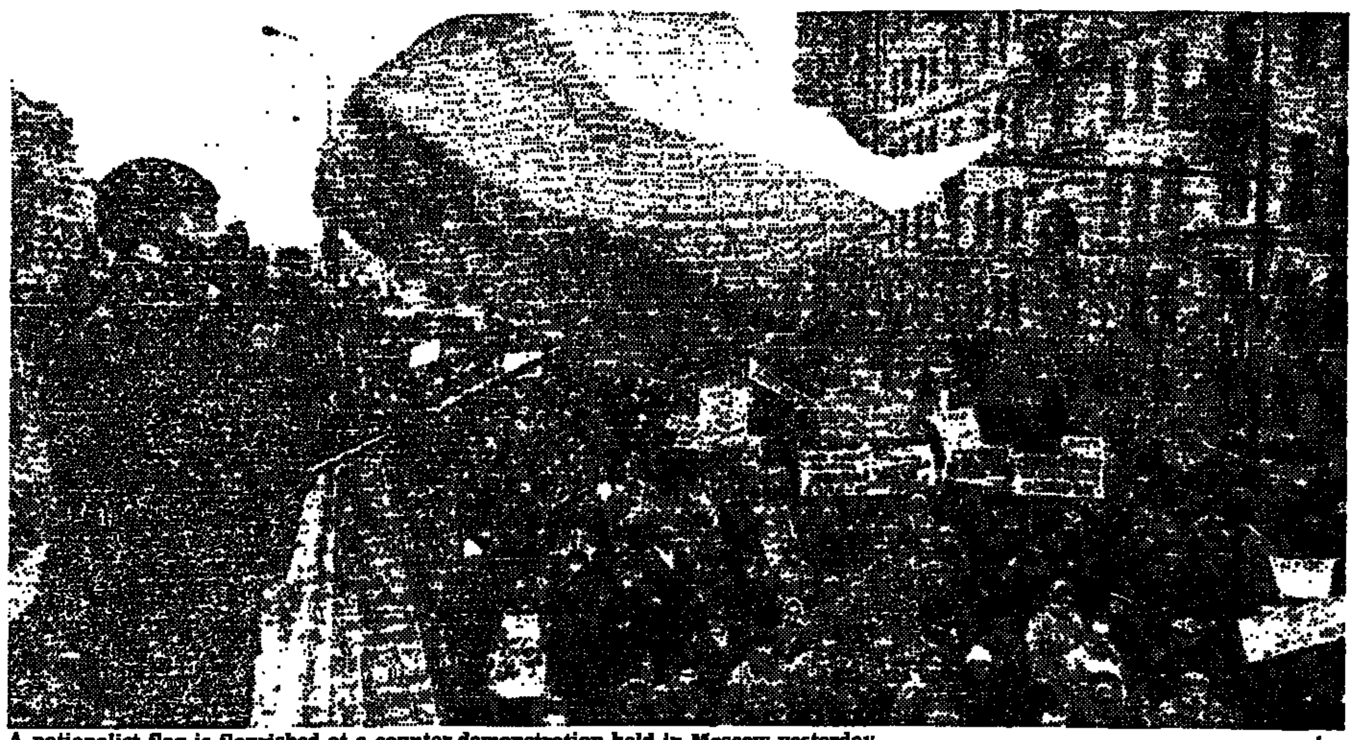
Sir, Your correspondent who compares bar-coding with the way coding and sorting helps the UK's mail on its way, does not match like with like ("Sort of automatic," Letters, October 31).

The difference between bar-coding tins, and putting machine codes on letters is simple: for supermarkets, every tin of baked beans carries the same information – but each of the 54m letters handled every day in the UK by the Royal Mail is an individual item, destined for any one of the nation's 24m addresses.

The Royal Mail's code technology speeds up sorting for every one of these letters, and enables us to sort them right down to the individual postman's round in the actual street where the house is located.

P.J. Howarth,
*Director, Field Operations,
Royal Mail Letters,
148-166 Old Street, EC1*

FINANCIAL TIMES
Wednesday November 8 1989



A nationalist flag is flourished at a counter-demonstration held in Moscow yesterday

Radicals steal Red Square's thunder

Quentin Peel in Moscow sees the annual traditional parade outshone

IT WAS the day of the alternative Red Square parade to mark the 72nd anniversary of the October Revolution.

The official event went ahead past the glowering granite block of the Lenin mausoleum, but deliberately playing down the traditional emphasis on military might, and playing up the old-style revolutionary slogans: All Power to the Soviets! and Land to the Peasants!

President Gorbachev took the salute with the grey trilby brigade of the Communist Party Politburo and friends – and then broke tradition by giving an impromptu television interview from the mausoleum. He was even temporarily lost for words.

The real innovation, however, was being played out on the road from the Dynamo football ground to the Olympic stadium, where several thousand Muscovites were allowed to march under banners demanding more democracy, an end to the Communist Party's monopoly on power, and generally bewailing the October Revolution.

"Workers of the world: Sorry!" was one telling banner, as a cheerful and motley collection of radical reformers, ranging from anarcho-syndicalists to members of the Inter-regional Group in the Congress of People's Deputies, united to put an alternative view to the 17 officially-sanctioned slogans in Red Square.

"Gorbachev – stay left!" expressed the fear of the radical left that the Soviet leader is giving too much ground to Communist Party conservatives. "Mikhail Sergeievich, whose side are you on?" said the same thing.

The common theme of the marchers was their demand for more democracy, a multi-party system, and an end to the Communist Party's "leading role" in Soviet society. Speakers at the Olympic stadium said party officials are trying to rig the next round of elections – demanding names for election committees by November 11, with three days' holiday before then to make life difficult for alternative groups.

A member of the coal miners' strike committee in the Arctic coalfield of Vorkuta won applause when he spelt out their political demands for direct elections for state president and an end to the Communist Party's monopoly on power. Even the military officers of Shield, the new organisation trying to establish a military trade union, gave him a hearty ovation.

Back in Red Square, it was a much more subdued occasion. On the left were the slogans of 1917: Peace for the People, Power to the Soviets, and Land to the Peasants. On the right, the slogan of 1989: Perestroika is the new look for socialism. In the centre, under the familiar massive portrait of Lenin, the military whipped by in a streamlined parade.

The massed bands played the national anthem in time to a crashing artillery salute, the soldiers marched by in a mere 10 minutes, and then the armour trundled by in barely five minutes more. The old centre-piece of the attraction – the main battle tanks thundering into Red Square in a cloud of ill-refined diesel fumes – featured a mere 25 ageing T-72 tanks. As for fearsome missiles, there were a handful of short-range SS-21s, plus a few Frog-7s and Scud-Bs, all nuclear-capable, but boasting decidedly well-worn technology.

"This is not a review of military might, but a festive review of our troops," a Soviet television commentator declared.

As for the good workers of Moscow – the Metro builders, Zil car factory workers, and the like – their slogans were fairly tame stuff, calling for such things as work discipline and concrete decisions. But even in the official parade, a few dissident notes crept in.

"A faster pace of democratisation in the Communist Party," read one. "Less talk, more action," said another.

Indeed, the sober, soul-searching mood of the country for once infected even Tass, the official news agency.

"Some people believe that we in the Soviet Union have nothing in particular to celebrate today," said Mr Boris Prokhorov, an official "news analyst."

"Well, one may think so, looking at an industrial downswing, inflation, transport malfunctions, coal miners' strikes and semi-barren shelves of shops. Yes, all this exists. These are the realities of truly not easy days for our perestroika."

On the other side was the holding of "the first genuinely free elections," disarmament and the withdrawal of troops from Afghanistan. "The main thing is perhaps that we are now having a fresh look, without blinkers, at ourselves and at our country."

Countries pledge to fight global warming by gas freeze

By Laura Raun
in Noordwijk

ABOUT 20 industrialised countries have agreed to freeze "as soon as possible" the levels of polluting gases that fuel global warming.

The declaration, the first political pledge to limit greenhouse gases and a significant step toward an international climate convention, was agreed yesterday at the end of a two-day conference hosted by the Netherlands.

But the US, Japan and the Soviet Union dissented from a deadline of the year 2000 for achieving the freeze, because of its uncertainty over the scientific and economic implications.

The timing of the accord coincides with a major environmental address to the UN due to be delivered today by Mrs Margaret Thatcher, the British Prime Minister.

Global warming is a process in which gases, such as carbon dioxide, methane and nitrous oxide trap the sun's heat when it should be reflected back into space. Carbon dioxide, which is generated by burning fossil fuels, is growing at 3.6 per cent annually and could boost temperatures by 1.5 to 4.5 degrees centigrade within 50 to 100 years.

The 20 European, Scandinavian, American and Antipodean countries also urged study of a further 20 per cent cut in carbon dioxide by 2005. Another 50 lesser industrialised countries also attended the conference, which will be followed up by the Inter-Governmental Panel on Climate Change (IPCC), a UN group preparing for the International Climate Convention.

Yesterday's declaration was described by Mr David Trippier, the UK Minister of State for the Environment, as a "dramatic step forward. It is a clear commitment on behalf of nations that we are taking the matter very seriously."

In the US, which releases one quarter of all carbon dioxide, the declaration could pressure President George Bush to clarify and strengthen his environmental policy.

Bush welcomes E European reforms

By Peter Riddell, US Editor, in Washington

DEMOCRATIC reform in Eastern Europe has now gone so far as to be irreversible, President George Bush claimed yesterday.

Addressing a White House press conference on the eve of the first anniversary of his election to the presidency, Mr Bush presented a cautiously optimistic view of the changes ahead of his meeting in early December with President Mikhail Gorbachev of the Soviet Union.

Mr Bush also talked of taking the first steps back towards normalisation of relations with China after the June crackdown on dissent.

In relation to Eastern Europe, while noting the impossibility of predicting the violence in Tiananmen Square, Mr Bush said the changes had "gone too far to set back the fledgling steps towards democracy. I don't think you can contain the people's aspirations for freedom by going back to totalitarianism."

The President defended his Eastern European policy against charges that he has been too cautious. "We have done plenty, and the fact that some critics are out there equating progress with spending more money doesn't bother me in the least," he said. "We are trying to facilitate the change. I don't hear complaints coming out of our allies or, indeed, out of Hungary or Poland or Eastern Europe," he added.

Mr Bush noted favourably some of the early comments of Mr Egon Krenz, the new East German leader. He said, "it's still too early to sum it up entirely, But some of what he has said about political reform is quite encouraging and really contradicts the very early, global assessment of the man."

"In other words, the early predictions were that he was a hardliner in the mode of Mr Honecker. There are now some signs that that is not the case."

The US, he confirmed, had been in close touch with West Germany over the flood of refugees from East Germany, but the Bonn Government had not requested assistance.

Mr Bush confirmed that he would veto a bill providing assistance for Eastern Europe because it also authorised a US contribution to a United Nations programme that allegedly required abortions in heavily populated countries. This was unacceptable to him.

On China, Mr Bush said he had made "quiet recommendations (to the leader there) and we'll see where it goes." He said last week's private visit to China by former President Richard Nixon (who opened up US relations with China in 1972) was "very helpful."

Otherwise, the press conference was mainly concerned with domestic issues. Mr Bush several times challenged the Democrat-controlled Congress to approve key items of his domestic agenda, such as clean air legislation, anti-drug enforcement measures and a cut in capital gains tax.

Demonstrators block parade

Continued from Page 1

arrest of those responsible.

In Armenia, where the official parade was also cancelled, an estimated 3,000 members of the Armenian National Movement, formed only this week, marched through the capital, Yerevan. Police intervened when about 30 youths burned the Soviet flag, but none were arrested.

The police also refrained from making any arrests in Lithuania, although they rapidly removed about 20 youths who attempted to stop the military parade in the capital, Vilnius.

Nationalists in Lithuania said the parade was one of the biggest of recent years – in contrast to low-key events elsewhere in the country – in an apparent show of strength to counter growing support for outright independence.

The parade in Moscow was deliberately more modest than the traditional massive display of Soviet military fire-power.

The slogans and television presentation also concentrated on the process of political reform in the country, emphasising the role of the newly-formed Supreme Soviet, and calling on voters to support candidates who backed the perestroika process.

Mr Gorbachev, interviewed on television, sought to rebut critics who believe he is backing away from reform. "To go back would be a colossal mistake. We have to advance faster and faster towards the new way of thinking," he said.

Chinese warned that grim years lie ahead

By Our Foreign Staff

FRESH signs of the gravity of China's economic situation emerged yesterday as the official newspaper Peking Daily declared that "only a few years of hard work, belt-tightening and unity" would enable the country to survive its present difficulties.

China's shortage of funds and raw materials, its huge population and backward economy were compounded by growing repayments on its foreign debt, the paper said. These repayments are due to peak in the early 1990s.

This growing concern came as the Communist Party's Central Committee was expected to endorse a three-year retrenchment plan which would impose tighter government control and freeze further economic reform.

The Central Committee is believed to have been in session since Sunday, attempting to hammer out solutions to the economic and political problems made worse by the violent June clampdown on student protest.

Meanwhile, Hong Kong diplomats said yesterday that the Central Committee might announce a decision to inject between Yuan 10bn and Yuan 30bn ($2.6bn-$8.0bn) into the economy to prevent the stagnation which is looming as a result of the "austerity policy", designed to cut inflation, in autumn 1988.

The conflicts inherent in these contradictory stop-go policies indicate the kind of arguments raging in Peking over how to handle the economic situation in the aftermath of the Peking clampdown.

The leadership has been eager to quell inflation, but is clearly alarmed that the austerity policy has brought economic growth almost to a standstill. The consequent fear of worker dissatisfaction at frozen wages and job-layoffs may have brought a rethink of priorities and induced plans for a new injection of cash into industry.

China's official news agency said yesterday about 1m rural factories have closed this year and hundreds of thousands of other rural ventures harmed.

WORLDWIDE WEATHER

		Y'day midday °C	°F			Y'day midday °C	°F			Y'day midday °C	°F			Y'day midday °C	°F
Ajaccio		–	–	Dallas		–	–	Madeira	F	20	68	Prague	R	8	46
Algiers		–	–	Dublin	C	9	48	Madrid	C	14	57	Reykjavik	R	3	37
Amsterdam	S	11	52	Dubrovnik	R	11	52	Majorca	F	16	61	Rhodes	S	21	70
Athens	C	20	68	Edinburgh	F	10	50	Malaga	S	19	66	Rio de Janeiro		–	–
Bahrain		–	–	Faro	S	20	68	Malta	C	20	68	Rome	F	16	61
Barcelona	F	16	61	Florence	S	19	66	Manchester	S	6	43	Salzburg	R	5	41
Belfast	C	7	45	Frankfurt	F	8	46	Melbourne	C	13	55	S'Francisco †	F	9	48
Belgrade		–	–	Geneva		–	–	Mexico City		–	–	Santiago		–	–
Berlin	R	9	48	Gibraltar	S	21	70	Miami †	F	24	75	Seoul	C	13	55
Biarritz	Dr	14	57	Glasgow	F	9	48	Milan	C	11	52	Singapore	F	31	88
Birmingham	Dr	9	48	Guernsey	C	13	55	Montreal †	R	8	46	Stockholm	C	8	46
Blackpool	C	11	52	Helsinki	C	7	45	Moscow	C	4	39	Strasbourg	C	7	45
Bombay		–	–	Hong Kong	S	28	82	Munich	R	2	36	Sydney	F	25	77
Bordeaux		–	–	Innsbruck	R	3	37	Nairobi	F	24	75	Tangier	F	19	66
Boulogne	C	10	50	Inverness	F	7	45	Naples	R	11	52	Tel Aviv	S	25	77
Bristol	C	12	54	Isle of Man	F	10	50	Nassau		–	–	Tenerife	C	23	73
Brussels		–	–	Istanbul	S	19	66	Newcastle	S	7	45	Tokyo	S	22	72
Buenos Aires		–	–	Jersey	F	11	52	New Delhi	S	25	77	Toronto †	F	12	54
Budapest		–	–	Johannesburg	S	21	70	New York †	C	13	55	Tunis	C	15	59
Cairo	S	25	77	Las Palmas	R	22	72	Nice	S	13	55	Valencia	F	17	63
Cape Town		–	–	Leeds	S	9	48	Nicosia	F	25	77	Venice	C	13	55
Cardiff	C	12	54	Lisbon	Dr	16	61	Oporto	C	15	59	Vienna	R	11	52
Chicago		–	–	Locarno	C	12	54	Oslo	F	8	46	Warsaw	S	11	52
Cologne	S	8	46	London	S	10	50	Paris	F	9	48	Washington †	F	12	54
Copenhagen	F	9	48	Los Angeles †	C	16	61	Peking	S	15	59	Wellington	F	18	64
Corfu	S	18	64	Luxembourg	C	4	39	Perth	S	26	79	Zurich	C	5	41

C – Cloudy. Dr – Drizzle. F – Fair. Fg – Fog. H – Hail. R – Rain. S – Sunny. Sl – Sleet. Sn – Snow. T – Thunder.
† Noon GMT temperatures

France demands missile participation

Continued from Page 1

air-defence frigates or allying itself with the US in the rival Nato Anti-Air Warfare System. (NAAWS).

The UK last month pulled out of an eight-nation Nato frigate project in which the two systems were in contention. France and Italy both withdrew immediately afterwards.

Britain has a standing invitation to join the French-Italian naval weapon programme, known as Family of Anti-Air Missile Systems. It has until late December to decide whether to join other nations in the rival NAAWS programme. The French Government is awaiting an early UK response.

UK involvement in the French-Italian venture would involve BAe and GEC-Marconi.

The dilemma for the UK is whether to participate in the full missile programme when the Royal Navy's interest focuses solely on one of the three naval variants, a local area missile.

The French-led programme includes a land-based medium-range missile to replace systems such as the US-designed Homing All-the-Way Killer (HAWK), in wide Nato service.

This would also be a candidate to replace the RAF's ageing Bloodhound missile.

The French authorities, together with Aérospatiale and the privatised Matra group, the country's other guided weapons contractor, are worried that the Thomson-BAe link could in the longer term threaten the structure of the French missile sector.

One French defence industry official said BAe was skilfully playing its hand since its merger with Thomson could put a wedge in the French defence sector at a time of general consolidation in the European defence industry.

BAe's negotiations with Thomson are also widely seen as one of the main reasons for Matra's recent moves to forge close links with GEC and Daimler-Benz.

THE LEX COLUMN

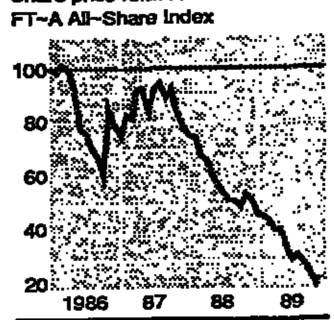
Raider held to ransom

If the threatened institutional revolt over DRG actually happens, the UK will never be the same for the corporate raider. The general idea seems to be that the institutions would keep a blocking minority of 35 per cent; Pembridge would then be allowed to break DRG up, but could only get the proceeds to its bankers via a tax-inefficient dividend distribution. After six months, it might be forced to apply to the Takeover Panel to buy the dissidents off at a higher price.

This looks suspiciously like a dry run for BAT, with Mr Roland Franklin standing in for Sir James Goldsmith. As with BAT, the issue seems one not of principle but of price. The institutions, themselves unwilling or unable to effect change in the companies they own, have no objection to harder souls doing the dirty work. All that is at issue is the going rate for the job.

It is by no means clear whether even a sub-group of institutions is capable of such a burst of solidarity. But if so, the principle could doubtless be extended. Next time, all the institutions could each agree to cash in 75 per cent of their holdings, then hold the predator to ransom for the rest. Hard as it is to shed a tear for the corporate raider, there is room for uneasiness here. As Mr Nicholas Ridley remarked yesterday, shareholders have a duty to take their responsibilities seriously. The DRG example looks like the reverse: not only selling out, but raising the price by threatening to cripple the company along with its new owner.

British & Commonwealth
Share price relative to the FT-A All-Share Index



BZW/Morgan Grenfell

One can only wonder what the humble clients of City powerhouses Morgan Grenfell and BZW make of their shenanigans. Last summer BZW took a shine to Morgan Grenfell but was rebuffed. Now that Morgan Grenfell is being pursued by an unwelcome French suitor, BZW does not look such a bad bet after all. Yesterday, it was BZW, or rather its parent Barclays, which did the dirty and left Cinderella looking for another partner. If these are supposed to be seasoned merchant bankers who can be relied on to clinch the Big Deal, their corporate clients can be excused for asking for a reduction in their fees.

In the case of BZW, the bizarre affair has only served to highlight its major weakness - the lack of a top notch corporate finance department.

For Morgan, BZW's departure is an embarrassment, since it removes one of the most prestigious bidders from the auction. Does it mean that Morgan Grenfell will now have to follow in the footsteps of some of its less well endowed rivals, and turn to some unheard-of Japanese bank for help? And if so, what sort of signal does this send to its enviable corporate client list?

The only party to have emerged with any credit from the whole affair is BZW's parent, Barclays. The idea of it paying 18 times earnings for Morgan Grenfell, when its own shares and those of a successful Wall Street firm like Morgan Stanley are trading at 6 times, always was unthinkable.

B&C

As recently as August, B&C was publicly insisting that the Gartmore fund management business was one of the more permanent bastions of its declining empire. Yesterday's abrupt U-turn tells us two big things, only one of which is indisputably good news for the shareholder.

It looks likely, first of all, that Mr John Gunn has pretty hard private evidence of a queue of Japanese and German banks and US insurers waiting to pay lavishly for Gartmore. Assume, in addition to Gartmore's net assets of £20m, that a buyer has to pay about 2 per cent of funds under management, the approximate going rate in other deals, and Gartmore could fetch £150m-£160m. That would not only demonstrate that there is value to be released from B&C's portfolio of financial businesses. The proceeds would also make a big hole in the £270m of floating-rate liabilities accounting for the riskiest portion of B&C's £700m debt mountain.

We also now know that B&C is feeling threatened; the question is by what. It is hard to believe that anyone could be rash enough to be serious about a hostile bid, of perhaps £500m, for a conglomerate of intangible assets and people businesses like B&C. The real threat which B&C's Gartmore disposal is intended to forestall could be the more mundane one of a further share price collapse if its operations stubbornly fail to recover next year.

Electricals

The City is starting to take the prospect of recession seriously, judging by James Capel's gloomy note on the electricals sector. The slowdown in the construction and consumer sectors is now, as economic textbooks said it should, working its way through to the capital goods sector and industry analysts are marking back their forecasts in line with their economists' views. Small companies are still acting as leading indicators of the trend - note Arlen's statement yesterday about the downturn in the electrical manufacturing industry. Capel is looking for a 1.5 per cent fall in manufacturing investment in 1990 which will obviously have a negative effect on those companies producing cables, motors and automation equipment, such as BICC, FKI and Babcock. For the moment, however, the major electronics groups can rely on telecommunications and defence to provide some protection against the slowdown.

Tie Rack

It was a sure sign of an overheating bull market when Tie Rack's offer for sale was 85 times subscribed back in the summer of 1987. Loyal subscribers to the issue have lost their shirts; the shares, floated at 145p, are down at 46p after yesterday's interim losses. Tie Rack is not the first retailer to expand too quickly or to find problems exporting its formula to the US. New retailing ideas can quickly go stale; niches, as they say, can become tombs. But the group may gain from the trading down effect at Christmas, as ties replace cameras on the presents list; and there ought to be scope for improving a stock turn of only four times. The share price may now be close to the lows; the group should still make a profit of £1m-£2m this year and its balance sheet, with assets of around 50p to 55p per share, is much stronger than that of the oft-quoted comparison, Sock Shop.

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FINANCIAL TIMES
COMPANIES & MARKETS
Wednesday November 8 1989

INSIDE

Magnet loses finance director

Magnet, the kitchen and joinery manufacturer and retailer which is in the middle of discussing a financial restructuring with its bankers, Bankers Trust, announced last night that finance director Albert King had left the group. No explanation for Mr King's sudden departure was given, but analysts speculated that he was being held responsible for the group's financial difficulties. Page 28

Enthusiasm worries brokers

Philippines President Corazon Aquino, who is on a visit to the US, will officiate today at the launch of a $60m fund for foreigners to invest in her country's stock market. The First Philippine Fund, which is underwritten by a syndicate led by Nomura Securities, is already oversubscribed, reflecting an enthusiasm for the main Philippine blue chips which — paradoxically — is worrying brokers and stock exchange officials in Manila. Page 48

Setting the pace

Today's move by the Banco Comercial Portugues (BCP), Portugal's foremost private bank, to almost double its branch network by opening 20 branches simultaneously confirms the bank's reputation as the most dynamic and innovative of Portuguese commercial banks. Patrick Blum reports on this latest step in an overall strategy aimed at making BCP one of Portugal's leading banks in the 1990s. Page 22

Chance to join in the excitement

A new opportunity to participate in Thailand's extraordinary economic growth is provided today with the listing on the London Stock Exchange of the Siam Smaller Companies Fund. The $30m fund aims to concentrate on the 100 or so companies capitalised at under *$100m at the expense of the top 15 companies* that account for nearly 50 per cent of the market's capitalisation. Page 25

Profits reversal at Tie Rack

Mr Roy Bishko, chairman and chief executive of Tie Rack (left), warned that the retailer's full-year profit would be "significantly less" than last year's £3.12m after reporting a worse-than-expected pre-tax loss for the 28 weeks to August 13. The loss, of £272,000, compared with a profit of £374,000 in the same period last year while turnover increased 41 per cent to £21.5m. Mr Bishko said the US operation, involving 41 shops, had both inflated the turnover figure and cut earnings. Page 27

Market Statistics

Companies in this section

Chief price changes yesterday

FRANKFURT (DM)				PARIS (FFr)			
Rises				Rises			
Leifeit	590	+	5	[illegible]	859	+	12
Falls				Zodiac	1190	+	38.3
Allianz	2014	-	31	Falls			
Beiersdorf	633	-	17	Casino	182.7	-	12.8
Degussa	455.5	-	15.5	CTM-Entreprise	265	-	53.6
Kaufhof	521.5	-	13	Luchaire	344	-	36.8
Rheinelektra	1740	-	40	Sovac	46	-	3.6
NEW YORK ($)				TOKYO (Yen)			
Rises				Rises			
Oxford DS	8¾	+	1⅜	Ishikawa Wool	1880	+	160
Merck	78⅛	+	1⅞	Int'l Precision	1580	+	180
Tesco	24⅞	+	7	Kitakyu Sols	1500	+	160
Wyse Tech	8	+	⅜	Toda Construct	2250	+	300
Falls				Falls			
Kroger	15	-	¼	Chubu Build Ind	1130	-	70
Rohr Inds	20⅞	-	1⅜	Maruzen Hosen	1470	-	100

New York prices as at 12.30pm.

LONDON (Pence)							
Rises				MEPC	466	+	7
Armstrong Equip	183	+	6	Ratners	289	+	6
BTR	430	+	7	Royal Ins.	473	+	12
Brit. Aerospace	541	+	7	Salisbury (J)	281	+	4
Fairey Grp	194	+	10	Tesco	190	+	3
Fenner (J.H.)	153	+	9	Vosper Thorn.	240	+	8
GEC	234	+	4	Falls			
Gen. Accident	1036	+	16	Cable & Wire	491	-	6
Hanson	218	+	5½	Tie Rack	46	-	8
Land Secs	518	+	5				

Gartmore could net B&C £130m

By Clay Harris in London

BRITISH & Commonwealth Holdings, the financial services group, said yesterday it expected strong competition from foreign buyers to enable it to raise at least £130m ($204m) from the disposal of Gartmore, its UK-based investment management subsidiary.

B&C is putting Gartmore, formerly considered one of its core businesses, up for sale to reduce borrowing and to try to remove the immediate threat of any hostile takeover bid.

With £6.4bn under management, Gartmore is more than twice the size of any of the other UK investment groups which have changed hands in the past year.

It is likely to prove attractive not only to potential overseas purchasers looking for a foothold in the UK market, but also to domestic institutions such as building societies.

Mr John Gunn, B&C chairman, said the proposed sale had been forced on the group by a mismatch between its low-yielding investments and high interest rates, and by continuing scepticism in the City about B&C's strategy. He said B&C would retain and expand Oppenheimer, its US investment arm with $13.1bn under management, and the Stock Group, its UK stockbroking and private client business with £2.2bn under management and advice.

"Far from withdrawing from fund management, we intend to be deeper in it," Mr Gunn said.

Gartmore made only £400,000 before tax last year, and analysts are looking for between £3.5m and £4.5m in 1989. On forecasts that Gartmore will double profits next year, a disposal at the target price would produce a net pre-tax benefit of about £10m in 1990.

B&C also plans to realise much of its development capital portfolio and to continue its efforts to sell investments in listed companies. Mr Gunn said, however, that B&C had rejected the latest offer for Hamptons, its estate agency chain.

Although B&C shares closed 6p higher at 125p yesterday, they have underperformed the FT-A All Share index by 75 per cent since the October 1987 crash. The sale of Gartmore is being handled by S G Warburg.

Lex, Page 20

John Gunn: since October 1987, nothing has gone right for him

Gunn sacrifices the family silver

Clay Harris *examines the reasons for the decision to sell off Gartmore*

FAULTY judgment, unfortunate timing or just bad luck? British & Commonwealth Holdings' decision to jettison Gartmore to keep the group aloft brings Mr John Gunn's stewardship sharply into focus.

From his heyday as the architect of Exco, the world's largest moneybroker, to his assumption of the leadership mantle at B&C, Mr Gunn appeared infallible.

Since October 1987, the contrast could not be starker. Nothing has gone right. Deals came unstuck; acquisitions were made just before downturns in the relevant sectors; investments slid to below book value and proved frustratingly illiquid. High interest rates worked a double whammy: depressing many of B&C's businesses while making the cost of carrying them soar.

B&C's shares have plummeted to less than one-quarter of their pre-crash peak, and takeover speculation has been rife.

Mr Gunn has often scorned the short-term horizons of the City, contrasting B&C's "10-year view" with the "10-minute view" of many analysts.

Yesterday, however, he was willing to admit that fault also lay on B&C's side and a lesson had been learnt. "We will be better off concentrating on half a dozen things than on a dozen.

"We always said it would take five years to do what we needed to do," Mr Gunn said. "We are two years down that road. What we got wrong was thinking that we would be given the time. That was just as much our mistake as the market's."

Mr Gunn also admits B&C got its timing wrong in not selling enough investments before the 1987 crash. It had not expected a downturn until the first or second quarter of 1988, and had sold only half its portfolio by October.

The watershed came in the takeover of Mercantile House Holdings in 1987, which brought US investment manager Oppenheimer into the group. Quadrex Holdings, a US securities firm headed by Mr Gary Klesch, forced B&C to raise its price, and to promise to sell Mercantile's wholesale broking division to Quadrex. "Had he not intervened we would have got Mercantile for nothing," Mr Gunn said.

Quadrex's failure to complete the deal in February 1988 led to lengthy litigation and left B&C with businesses it did not want. It finally sold MW Marshall, the world's second largest moneybroker, a year later, but it is still stuck with US government securities broker William Street.

The post-crash purchase of Abaco, the professional services group, and last summer's £407m acquisition of Atlantic Computers did nothing to restore the City's faith. The first has been clobbered by high interest rates, the second by IBM's aggressive attack on the computer leasing market which has trimmed margins to the bone.

Was Atlantic a good deal for B&C? "We will prove it is or die in the attempt," Mr Gunn says through clenched teeth. The highest praise he can muster is to describe Atlantic as a "poison gob-stopper" against takeover.

Such plans, in the making prompted yesterday's announcement. Institutions were being solicited about specific classes of debt securities in individual B&C subsidiaries. "You have to respond to that," Mr Gunn said. "That was one stage beyond what we were hearing before."

So Gartmore had to go. It is being sacrificed because it is likely to command a high premium. "Integrated fund management groups of Gartmore's type will attract the highest p/e of any financial services business you can think of," Mr Gunn said. Indeed, assuming pre-tax profits of £4m in 1989, the exit multiple would be a heady 50 times earnings at £130m, although some analysts think that target is ambitious.

With £6.4bn under management, Gartmore ranks as 11th among UK pension managers and is the 13th largest unit trust group. However, in the latter sector, accounting for 30 per cent of its managed funds, Gartmore's 1988 record was mediocre. It had two of the 10 worst performing unit trusts, but none of the best 10. Only four of its 28 trusts performed above the median in their sectors. For some time, there were net redemptions from its trusts, but Mr Paul Myners, Gartmore's chairman, said this flow had now reversed.

Pension schemes, accounting for 60 per cent of funds under management, have been the main growth area in recent years.

B&C said it expected keen bidding because no other fund manager was likely to come on the market with a comparable size, UK presence, geographical diversity and spread of funds.

Bids are likely to come from the UK and abroad. "The range is endless," said Mr Martin Green, of stockbroker Smith New Court. But Mr Myners believes: "I think it's difficult to imagine that a UK purchaser will see as much value in us as a foreign purchaser."

Perrier plans $394m sale of soft drinks side

By William Dawkins in Paris

SOURCE PERRIER, the world's largest supplier of mineral water, is widely expected today to confirm long-running rumours that it plans to sell its soft drinks division.

The sale, which according to stockbrokers Tuffier-Ravier-Py could fetch up to FFr2.5bn ($394m), comes shortly after an angered Pepsi-Cola de France gave notice that it would end a 27-year franchise agreement with Perrier, under which the mineral water company bottled and distributed Pepsi in France.

This is the second tussle in the French soft drinks industry since August, when Pepsi's larger rival, Coca-Cola, ended a long-running row with Pernod-Ricard, its former distributor, by buying back its own activities from the French drinks group.

Mr Marcel Richard, Perrier's finance director, was quoted by a news agency as saying that the group wanted to concentrate on the more profitable and faster growing mineral water market. "We think the mineral water market throughout the world is dramatically expanding, in the same way it did in France 20 years ago," he said.

Perrier officials refused to comment further, beyond saying that they aim to make a formal announcement today.

Perrier's soft drinks division, Compagnie Francaise De Boissons Gazeuzes, accounted for FFr1.15bn of the group's FFr15.15bn turnover last year. The rest is split between mineral water and Roquefort cheese.

Its main soft drinks brands include Oasis, Pschitt, Gini and Ball.

Pepsi-Cola accounted for an estimated 1 per cent of the group's overall sales in 1988 and 2 per cent of Perrier's drinks sales. Britain's Cadbury Schweppes and Pepsi-Cola itself have been mentioned as possible buyers.

Mr Stu Haugen managing director of Pepsi-Cola de France, said his decision had no link with the possible sale of Perrier's soft drinks arm, but was instead "the function of many years' of failed performance by Perrier."

Pepsi's share of the French cola market had nearly halved from 17 per cent to between 8 per cent and 9 per cent over the past 10 years, he said. The rest is dominated by Coca-Cola.

The French cola market grew by 29 per cent and consumption of soft drinks of all kinds by 10 per cent last year, faster than anywhere in Europe — yet Pepsi's market share continued to decline, said Mr Haugen.

Pepsi-Cola, which has not yet found a new French franchisee, *has given Perrier 14 months'* notice, until the end of 1990, for the termination of the contract. Mr Haugen said the US company was considering whether to bottle and distribute in France independently or seek another local partner.

UK bid target liable to pay off US board

By Nikki Tait in London

UNITED Scientific Holdings, the UK defence contractor facing a £107m ($168m) takeover bid from Meggitt, said yesterday it was liable for up to $2.46m in "golden parachutes" for directors of its US subsidiary even though the severance payments had been put in place without the parent company's knowledge.

Meggitt, a specialist engineering group, has claimed control of 76.6 per cent of USH but is seeking more financial information before declaring its offer unconditional.

The potential payments could arise at Optic-Electronic Corporation, which makes electro-optical defence systems. USH's plan to sell this business to Imo Industries was blocked last month by the Federal Trade Commission.

When the sale was announced, it was stated that severance sums were payable by OEC to its four directors in the event of "any change of control of OEC," and that USH would indemnify Imo for these.

Since then, according to USH, the OEC board has passed resolutions which could allow these individuals, including OEC's chief executive and chief financial officer, to receive similar payments if control of USH itself changes. OEC is sheltered from USH by a voting trust and proxy board. The UK parent says it was not consulted about the arrangement.

Alitalia hit by death of president

ALITALIA, the Italian state airline, has suffered a big blow to its recovery strategy with the death of Mr Carlo Verri, its 50-year-old president, in a car crash in Rome, Reuter reports.

His death late on Monday could scarcely have come at a worse time for the struggling airline. Analysts said Alitalia faces erratic profits, stagnating passenger traffic and growing competition on its European and long-haul routes.

Mr Verri, who was appointed from the private sector in July last year to revitalise the airline, was a key element in its strategy.

Before the appointment Mr Verri had been president of the components group of Electrolux, the Swedish white goods maker, and, unusually for a manager of a major state firm, had pursued his career far from the political intrigue of Rome.

His brief at Alitalia was to resolve chronic labour problems which had disrupted Alitalia schedules and map out a growth strategy.

He was brought in by Romano Prodi, then president of state holding Istituto per la Ricostruzione Industriale (IRI), after a bitter public row between Prodi and Verri's predecessor Umberto Nordio over managing the airline.

Strikes by pilots, cabin crew and ground staff, which had plagued the airline throughout early 1988, persisted after Verri's appointment, adding to the havoc caused by unusually persistent fog at north Italian airports last winter.

However, a breakthrough came earlier this year when Mr Verri succeeded in reaching labour accords with cabin crew in May and the pilots in July, ending nearly two years of disruption.

The agreement with the cabin crew expires in December next year, while the pilot's pay deal runs until September 1991.

Mr Verri's achievement in sealing deals with the unions was secured at considerable cost, including a 26 per cent pay rise for the pilots over the four years of the accord, backdated to 1987.

Mr Verri was also the architect of a L5,900bn ($4.3bn) investment programme between 1989 and 1996. Of this, L3,400bn was for fleet expansion and the rest for upgrading ground infrastructure.

The investment was part financed by a two-for-three rights issue to increase capital to L975bn, from L585bn.

Despite less pressure from fuel costs than in the early 1980s, analysts believe the airline still faces an uphill struggle to improve profits while fighting for market share. In the meantime, Alitalia faces uncertain profits. Consolidated attributable group profit fell to L47.98bn last year, from L73.89bn in 1987, and the airline reported a L172bn loss in the first half of this year.

AT&T proposes Unix equity sale

By Louise Kehoe in San Francisco

AT&T IS planning to offer to sell equity stakes in its Unix Software Operation to a number of computer companies, in a move aimed at resolving conflict in the computer industry.

Mr Robert Kavner, AT&T Data Systems president, said he has discussed the proposal with senior executives at several leading computer companies. "We are finding great interest," he reported.

AT&T's plan is designed to address the concerns of some computer companies that its control of the Unix Software Operation could place AT&T at an advantage over other Unix computer system manufacturers.

Such concerns were a major factor in an industry-wide schism, 18 months ago, that led to the formation of the Open Software Foundation, members of which include IBM, Digital Equipment and Hewlett-Packard.

The Unix Software Operation is the AT&T unit responsible for Unix development and marketing.

Last week the unit introduced a new "standard" of Unix that integrates several widely used versions and is capable of running on a wide variety of different types of computers, from laptop computers to mainframes.

The Unix computer operating system was developed by AT&T in the 1970s. It has become one of the most widely used systems in the world. Sales of Unix based computers totalled about $10bn last year and are expected to increase to over $20bn per year by the mid-1990s.

Among the companies understood to have been approached by AT&T with its investment proposal are IBM, Digital Equipment and Hewlett-Packard, as well as the members of the Unix International industry group.

OSF members rejected AT&T's plans to develop a single "standard" form of Unix and set out to develop its own rival form of the Unix operating system.

"It is important to provide an improved perception of a level playing field," said Mr Kavner. Another potential benefit of the equity sale would be the opportunity to draw upon the expertise of new board members to make the company "as competitively driven as possible," he suggested.

Mr Kavner said that he is working with investment bankers to put a price upon the Unix Software Operation and that he hopes to have a prospectus ready by the end of the year, or early in 1990.

Still to be determined, said Mr. Kavner, is how much of the equity of USO may be sold. "AT&T does not have a fixed, hard position on this issue," Mr Kavner said.

INTERNATIONAL COMPANIES AND FINANCE

NEWS IN BRIEF

Inspiration Resources suffers loss

By Kenneth Gooding, Mining Correspondent

INSPIRATION RESOURCES, the North American natural resources group 56 per cent owned by Minorco, part of Mr Harry Oppenheimer's South African empire, suffered a third-quarter net loss of US$8.3m or 12 cents a share, compared with a profit of $14.4m or 22 cents.

Last year's third quarter included a gain of $26.7m or 40 cents a share from the sale of the group's US copper unit. Excluding that gain, IRC's 1989 third-quarter loss was $4m less than in the same months last year. Revenue in the quarter slipped from $285m to $281.4m. In the first nine months revenue was maintained at $1.18bn and net income fell from $39.35m or 59 cents a share to $27.6m or 42 cents.

■ Thomson Maintenance Informatique, the third-party computer maintenance unit of France's state-controlled Thomson-CSF, unveiled a fresh expansion move in Belgium and two acquisitions in Austria to follow up a European growth drive it began in June, AP-DJ reports.

Thomainfor said the moves include the purchase of the maintenance activity of the Belgian company Tekserv for an undisclosed amount. Tekserv was formerly a subsidiary of MAI Basic Four, the US group.

At the same time, Thomainfor will take control of two Austrian computer maintenance specialists, APH-Serv and Datacom, also under undisclosed terms.

■ Navigation Mixte, the diversified French holding group, holds 3.39m shares or 5.2 per cent in banking group Compagnie de Financière de Paribas, the French stock exchanges association (SBF) said, Reuter reports.

Mixte said last week it had taken a stake of more than 5 per cent in Paribas but did not specify exactly how much. Also last week, the French Finance Ministry cleared Mixte to take over 10 per cent in the privatised bank's capital.

Texas Instruments plans $1.2bn Italian expansion

By Louise Kehoe in San Francisco

TEXAS INSTRUMENTS has announced plans for a $1.2bn expansion of its operations in Italy over the next four years. The US-based semiconductor and electronic equipment manufacturer said a significant portion of the investment would consist of incentives from the Italian Government.

In January Texas Instruments announced it would build a large memory chip manufacturing plant in Avezzano, Italy, at a cost of $250m. Yesterday the company said it had added a second phase to that development.

TI now plans a 16-megabit Dram operation in addition to the four-megabit Dram plant currently under construction. The company will also create an applications research centre at Avezzano to support the Dram manufacturing operation and to design special types of memory chips for the European consumer electronics market.

TI also said it would upgrade its semiconductor assembly and test operations in Rieti and its Materials & Controls Division's electrical controls manufacturing operation in Aversa.

TI's expansion in Italy follows a series of moves to increase its production capacity worldwide.

The company is currently expanding its semiconductor plants in the US and Japan and recently entered into a joint venture to begin chip production in Taiwan.

The Italian Government is understood to have provided L965bn ($711m) of the total L1,686bn cost of TI's expansion. Over a four-year period the expansion will add about 1,000 jobs to TI's current Italian workforce of 2,000.

Torras raises profits by 212%

By Our Financial Staff

GRUPO TORRAS, the Spanish food, paper, chemical and financial services group, yesterday announced a 212 per cent rise in consolidated pre-tax profits for the first nine months of 1989, to Pta11.1bn ($94m), up from Pta5.2bn a year earlier. Earnings per share for the period were Pta113, up from Pta69, while total sales reached Pta351.4bn.

Mr Javier de la Rosa, vice chairman of the group, in which the Kuwait Investment Office has a 40 per cent stake, said: "All areas of Torras' business are performing to plan.

"The past three months have seen further improvements in the contribution of the companies recently acquired by the group and 1989 will be a record year for all our businesses."

Company officials highlighted some important operations in the third quarter:

- Record profits by the food producer Ebro, up 61 per cent to Pta12.4m
- A reduction in nominal share value at Ebro, from Pta700 to Pta100, to make the shares more marketable, and a fourth interim dividend.
- A three-for-five capital increase at Inpacsa, the paper division.
- The purchase by Ercros of 80 per cent of Enfersa, a manufacturer of nitrogenous products, for Pta7.4bn.

Mr de la Rosa added: "We are in the midst of an exciting time for all sectors of Spanish business as the country, and those outside, begin to focus on the tremendous opportunities presented by the single market."

Separately, Ercros, the fertiliser and chemicals company formed by the merger of Union Explosivos Rio Tinto and Cros, boosted pre-tax profits to Pta18.2bn from a pro forma Pta6.34bn.

Caparo nears victory in Armstrong bid

By Ray Bashford in London

CAPARO GROUP, the private holding company headed by Mr Swraj Paul, yesterday appeared assured of victory in its takeover battle with Armstrong Equipment after tying up another 17.4 per cent of the capital in the industrial fastener and engineering group.

By the close of trading, Caparo controlled 48.5 per cent of Armstrong's capital, and the company is expected today to announce a further increase in the stake.

Caparo strengthened its position in the seven-week fight by announcing yesterday morning that J.H. Fenner, the power transmission and conveyer belting company, had agreed to accept an increased offer. It then consolidated its holding by moving into the market to pick up institutional stock.

To win this suppport, Mr Paul raised the offer by 5p to 185p, which values Armstrong at £98.6m ($155m).

Before the announcement of the institutional support for the offer, Mr Roy Watts, chairman of Armstrong, rejected the increased offer. "It is time that he [Mr Paul] got on with running his own business and let us run ours," he said.

J.H. Fenner held a 6.3 per cent stake and during the bid has been seen as both a potential bidder and potential white knight for Armstrong. The company yesterday claimed it would show a "small surplus" on the disposal.

The market purchases at the offer price netted a further 11.1 per cent stake and Caparo is confident that other institutions which have stood firm in their opposition to the 180p a share offer will sell at the higher price.

Caparo launched the bid with a 29.3 per cent holding in Armstrong and had received acceptances for only 1.8 per cent of the capital at the 180p a share level.

Judgment clears path for solution in NBA row

By John Wyles in Rome

A MILAN judge yesterday tried to clear the ground for a negotiated solution to the row over Crédit Agricole's prospective purchase of a 13.3 per cent stake in Nuovo Banco Ambrosiano (NBA) with a Solomonic judgment which was welcomed by all the Italian parties to the dispute.

Judge Clemente Papi was called on to rule on Crédit Agricole's application for the sequestering of Banca Popolare di Milano's shareholding, which the French bank wants to buy for L283bn ($209m).

All but one of the members of NBA's controlling shareholders' syndicate agreed 10 days ago to welcome Crédit Agricole as a shareholding partner, leaving Gemina, the financial holding company controlled by the Fiat Group, in an angry minority.

Gemina, which controls 14.8 per cent of NBA's ordinary capital and wanted the stake to go to Generali, the insurance company, was secretly outflanked by forces, said to include the Treasury and the Bank of Italy, opposed to Generali's participation in what will be Italy's largest private bank when NBA completes its merger with Banca Cattolica del Veneto next month.

Yesterday, Judge Papi refused to order the sequestration of Banca Popolare's shares on the grounds that it was not urgent to do so and that the Milan bank had undertaken not to sell them to anyone else for the time being.

This pleased Banca Popolare while NBA noted happily that Crédit Agricole had been judged a valid purchaser of the shares and that there was no risk of their sale to a third party.

Gemina was pleased that the sequestration had not been granted and was clearly hoping last night for a negotiated solution to a highly embarrassing row, possibly on the basis of Generali and Crédit Agricole halving the stake which is up for sale.

Banca Popolare also wants an agreed solution rather than selling against Gemina's wishes.

BCP sprouts branches to challenge the state

Patrick Blum on a Portuguese bank's rapid growth

Today's move by Banco Comercial Portugues (BCP), Portugal's leading private bank, almost to double its branch network by simultaneously opening 20 branches confirms its reputation as the most dynamic and innovative of Portuguese commercial banks.

Until now BCP had built up a network of 26 branches specialising mainly in private and corporate banking for high-income groups.

The new branches will be part of the bank's *Nova Rede* (new network) service aimed at medium-income groups. Each branch will be small with a handful of employees using the latest technology to provide fast and efficient over-the-counter service.

With the network BCP will challenge head on the dominance of the larger and older state-owned banks over an important segment of the market. The move is the latest in an overall strategy that aims to make BCP one of Portugal's leading banks in the 1990s.

Rapid expansion will continue. Before the end of the year another 10 *Nova Rede* branches will be opened. In 1990, the bank plans to establish another 50 such branches and up to 10 of its more upmarket branches.

It is a spectacular expansion even for a bank that has won praise from all sides in Portugal's banking community for its innovative approach and rapid growth since it set up its first two branches in May 1986.

In under three and a half years, BCP has become Portugal's largest commercial bank in terms of operating income. It now ranks among Portugal's top 10 banks in terms of assets.

Mr Manuel Luna Vaz, one of the bank's directors, explains: "We want to grow fast in preparation for 1992." By then, Portuguese banks will have to face the full impact of free competition within the European internal market.

The bank's existence was made possible by the liberalisation of the financial system in 1984 which allowed the establishment of private banks and financial companies.

Shortly after that, a group of leading Portuguese industrialists joined forces to create Portugal's first private bank since the sector was nationalised in the 1975 revolution. They aimed to establish a bank that would break with the conservatism of Portugal's state-owned banks by emphasising innovation, and providing new financial instruments and efficient personalised services.

To achieve these goals, the bank invested Es1bn ($6.3m), almost a third of its initial Es3.5bn capital, in computers and new technology. As a result it has the largest ratio of computers for employees among Portuguese banks. This has given it comparatively lower staff costs.

With an eye to 1992, the bank has been run from the start as if it were operating within a fully-liberalised European market. To meet the expected challenge of open competition, the bank's management has ensured that it would be more than adequately capitalised.

In contrast to the state-run banks which tend to be under-capitalised, BCP started its life with an initial capital well above existing minimum requirements. Since then, it has kept ahead by repeatedly raising its share capital which has grown to Es30bn this year.

This has given the bank enough flexibility to offer a wider range of services to its customers and facilitate its rapid growth.

Total assets have risen from just above Es30bn at the end of 1986, to Es129.7bn at the end of 1987 and Es295.6bn at the end of 1988. By the end of this year, the figure is expected to be about Es375bn. Pre-tax operating profit almost trebled in 1988 to Es5.2bn from Es1.7bn in 1987. It is expected to double to over Es11bn for 1989.

The bank's new venture into a broad market involves risks. The state-owned commercial banks dominate the mass market and there is a danger BCP could overreach itself in a market some bankers believe is close to being overbanked.

Most analysts appear to believe that the BCP challenge will succeed. A recent study by BNP Securities concluded that the new strategy would cut BCP's average cost of funds while the bank will continue to benefit from low operating costs and cost advantages.

The bank plans to expand internationally. It has opened a branch in Madeira's offshore financial centre and further growth is planned.

At home the bank is broadening and gradually transforming itself into a financial group with participations in several companies dealing with factoring, real estate, leasing, insurance and fund management.

How far can BCP go? A private poll carried out among Portuguese bankers consistently placed BCP at or near the top of the list among the most successful Portuguese commercial banks. Mr Luna Vaz for his part, has no doubts: "We want to be among the first in Portugal," he says.

Mérieux earnings hit by R&D costs

INSTITUT MERIEUX, the French vaccines group controlled by Rhône-Poulenc, saw first-half 1989 profits virtually wiped out, due mainly to a 45 per cent increase in research and development costs, writes Our Financial Staff.

Net profit plunged to FFr700,000 ($111,464) from FFr51.2m. Operating profit dropped to FFr92.7m from FFr138.3m in spite of a 15 per cent rise in turnover to FFr1.72bn. The company said R&D totalled 16 per cent of turnover against 13 per cent a year earlier.

The company, which is about to take over Connaught BioSciences of Canada for C$942m (US$805m), said it extended its $37 a share bid to November 16 from November 6. It has received offers representing about 44.6 per cent of Connaught's shares.

INTERNATIONAL COMPANIES AND FINANCE

McCaw Cellular improves but stays $44.9m in red

By Anatole Kaletsky in New York

McCAW CELLULAR Communications, the leading US mobile telephone operator which is embroiled in a complex $5.4bn battle to take over LIN Broadcasting, reported a substantial increase in third-quarter revenues and cash flow.

Nevertheless, McCaw's business remained deeply in the red and its operating cash flow fell well short of debt servicing requirements.

McCaw, which is 22 per cent owned by British Telecom, reported a net loss of $44.9m or 28 cents a share in the quarter. The net loss a year ago was $81.7m or 62 cents, but almost half the improvement was due to a previously announced one-off gain of $17.4m from the sale of Puerto Rican assets.

The quarterly loss was narrowed by a $14m increase in interest income attributable to funds received by McCaw from British Telecom in June.

McCaw's total revenues increased by 65 per cent to $139.7m, with most of the growth attributable to cellular service fees, which grew by 80 per cent to $92.5m.

After nine months, total revenues advanced 60 per cent to $352m with cellular services expanding by 77 per cent to $244.6m.

On an operating basis, excluding interest charges and receipts as well as such one-off items as asset sales, McCaw reported a loss of $33.4m in the latest quarter, compared with a $39.6m shortfall a year earlier.

Operating cash flow, excluding depreciation and amortisation charges, was a positive $50.5m, 25 per cent higher than the $40m achieved a year ago. But this cash flow still fell short of the latest quarter's interest expenses, which came to $56.8m.

At the end of the third quarter McCaw's long-term debts came to $1.77bn, down from $1.85bn at the beginning of the year.

The company is due to borrow a further $600m as part of a deal announced last month in which McCaw will buy Metromedia's partial interest in the New York cellular franchise for $1.9bn while selling its southeastern franchises to Contel for $1.3bn.

In addition, McCaw would borrow about $3.8bn if it succeeded in its bid to buy 50.3 per cent of LIN, which is the main cellular operator in New York, Los Angeles and several other large US cities.

Rapid expansion at Wal-Mart

By Karen Zagor in New York

WAL-MART, one of the biggest US retailers, has reported strong third-quarter earnings and sales.

Net income for the three months ended October 31 surged 29 per cent to $232.7m or 41 cents a share, from $180.9m or 32 cents a year earlier.

Revenues for the quarter advanced 26 per cent to $6.33bn from $5.03bn.

For nine months, net income rose 26 per cent to $650m or $1.15 a share from $514m or 91 cents a share. Revenues advanced 25 per cent to $17.82bn from $14.21bn.

The Bentonville, Arkansas company, which is the third biggest chain after Sears, Roebuck and K mart, has been growing rapidly. In the third quarter the company opened 40 new Wal-Mart stores, nine Sam's Wholesale clubs and two Hypermart USA stores.

At the end of the quarter, the company operated 1,347 Wal-Mart stores, compared with 1,204 a year earlier.

The number of Sam's Wholesale clubs, warehouses open to consumer members, expanded to 118 from 99 the previous year. The company operated three Hypermarket USAs in the recent quarter, from only one a year ago, while the number of dot Discount stores was unchanged at 14.

Mr David Glass, president and chief executive, said: "We expect the fourth quarter to be highly competitive but believe our inventory levels, our associates' involvement and continued efforts at exceeding our customers' expectations will enable us to meet our goals."

Elbit to buy majority holding in Elscint

By Hugh Carnegy in Jerusalem

ELBIT COMPUTERS, an Israeli military computers producer, said yesterday it was poised to acquire a majority holding in Elscint, which makes medical diagnostic imaging systems, in an incestuous deal designed to resolve Elscint's heavy debt burden.

Both companies, quoted respectively on Nasdaq and the New York Stock Exchange, are subsidiaries of Elron Electronics Industries, another Israeli company quoted on Nasdaq.

The deal should finally clear up the mess left when Elscint collapsed three years ago, to be rescued by Israeli banks and the Government.

Elbit, which showed a net profit of $5.7m in the first half, will pay $20m in cash for a 45 per cent share in Elscint pledged to a consortium of Israeli banks in lieu of $50m in outstanding debts. It will guarantee another $20m of Elscint's total debt of about $100m.

Elbit will also take over the remaining 25 per cent stake in Elscint held by Elron, paid for with Elbit shares. It will invest a further $10m through a private placement.

An official close to the deal said it was "good for everyone;" for Elscint, which is delivered from its debt problems, for Elbit as it is diversifying, cheaply, into civilian business, and for Elron because its Elscint headache is removed.

The move is even good for the banks as, with other previously arranged guarantees, they are now assured of recovering up to $70m of the $100m owed.

Elron's own principal shareholders are subsidiaries of Israel Discount Bank, Israel's third largest.

Directors of Qintex may face charges on A$41m payments

By Bruce Jacques in Sydney

DIRECTORS OF Qintex, the troubled Australian media and tourism group, may face prosecution over payments made to a private management company controlled by Mr Christopher Skase, the chairman, and key executives.

Mr Henry Bosch, chairman of the National Companies and Securities Commission (NCSC), warned yesterday that court action was being considered.

The payments in question involve about A$41m (US$32.2m) authorised by the Qintex board over the past 18 months to Qintex Management Services. Mr Skase said in a television interview on Monday that much of the payments were for provision of administrative services, including rent.

Mr Bosch said he had no problems with the administrative payments but had found difficulties with an alleged 20 per cent commission paid on them. "As far as the A$14m-odd that was paid directly to the executives, I have very great difficulties with that indeed," he said in a radio interview.

Shares in both Qintex and Qintex Australia remain suspended as the Australian Stock Exchange believes the market is still not fully informed about the companies' solvency.

The principal lenders have appointed an adviser, Mr David Crawford, of Peat Marwick, the accountancy firm, to report next week on the Qintex group's chances of survival.

Meanwhile, Mr Skase has put his own survival plan to the banks. This calls for at least A$1bn in asset sales, although there is already doubt over prices obtainable for tourist and media assets which are out of market fashion.

Citic may purchase stake in Dragonair

By John Elliott in Hong Kong

PEKING-controlled China International Trust and Investment Corporation (Citic) is believed to be considering taking a stake in Dragonair, the small Hong Kong-based airline whose main shareholder, Sir Yue Kong Pao, sold his 37.8 per cent controlling interest at the weekend.

Citic already has a 12.5 per cent stake in Cathay Pacific Airways, Hong Kong's main airline, and is looking for new investment opportunities in a range of business areas.

Dragonair is now controlled by Hong Kong's Chao family, whose wealth is based on textiles. The family founded the airline early in 1985 and then brought in Sir Yue Kong, primarily because he had a British passport which the airline needed to gain access to Hong Kong's UK-controlled air traffic rights. Mr Ronald Chao, now Dragonair's chairman, also has a British passport.

Sir Yue Kong's exodus, and the possibility of a Citic stake, has raised speculation about some form of co-operation between Cathay and Dragonair, which have been bitter rivals since 1985. Cathay is watching the situation closely but does not appear to have made any positive moves.

Dragonair flies a mixture of scheduled and charter flights to 15 destinations in China and other regional locations with a fleet of five Boeing 737-200s. Cathay has a fleet of 36 wide-bodied aircraft and serves 37 international and regional destinations. So the two airlines are potentially complementary and there have been informal soundings in the past about possible co-operation.

Operating income at LTV slides

By James Buchan in New York

LTV, the Dallas-based industrial group, yesterday reported a sharp drop in operating income in the third quarter because of a reorganisation of its steel business and higher costs on fixed-price contracts in its aerospace division.

The company, which is operating in bankruptcy, said its net income for the quarter was $85.7m or 60 cents. This compares with a loss of $1.24bn in the third quarter of 1988 after the company booked big charges to profits as part of its bankruptcy proceedings.

Sales in the quarter fell from $1.71bn to $1.51bn, largely because of the exclusion of revenues from LTV's steel bar division, which is up for sale. This was also the main reason for the decline in steel operating profit from $80.9m to $60.6m in the quarter. But LTV, in common with other producers, is also seeing a general decline in steel shipments.

At nine months, LTV enjoyed net income of $192.6m or $1.33 a share compared with a loss of $3.25bn in last year's period after special charges.

Nine-month decline at Canadian Pacific

By Robert Gibbens in Montreal

CANADIAN Pacific, one of the country's largest conglomerates, reports a sharp decline in nine-month earnings although some improvement is forecast in the final quarter.

For the nine months, CanPac posted earnings of C$554.5m (US$474m) or C$1.75 a share, down from C$613.5m or $2 earlier, on revenues of C$8bn against C$8.1bn. The results include continued operations.

Third-quarter profit was C$284.1m or 90 cents, up from C$199.2m or 63 cents on revenues of C$2.7bn against C$2.79bn.

A C$70m after-tax gain on the sale of the bulk shipping operation is included. A year earlier the results included a C$26m loss on the sale of Algoma Steel.

Depressed grain exports cut deeply into CP Rail profits and the big forest products subsidiary was hit by heavy discounting in newsprint.

The impact of the higher Canadian dollar on the company's extensive US operations was severe.

But AMCA, the steel products manufacturing subsidiary, performed well while Pancanadian Petroleum's earnings were stable. Hotels were strong while the contribution from Laidlaw Transportation also improved.

In the final quarter, the company said, newsprint would remain under pressure although pulp prices would stay firm.

Expected recovery in rail traffic may not materialise because of poor export sales of Canadian wheat. However, oil prices should be firmer than a year earlier and real estate operations would gain from property sales.

Japan Airlines climbs 40.5% to Y54.59bn

By Robert Thomson in Tokyo

JAPAN AIRLINES (Jal) has reported a 40.5 per cent increase in pre-tax profits to Y54.59bn ($380m) for the six months to end September, after significant growth in passenger numbers on domestic and international routes.

But the airline has estimated that pre-tax profits for the year will rise by only 7.6 per cent to Y47bn, because of expected rising fuel costs and a slowdown in passenger growth.

Sales in the half rose 11.8 per cent to Y535.49bn, with revenue from international services up by 10.7 per cent and domestic services by 14.8 per cent.

Over the six months Jal carried 6.92m passengers on domestic routes, an 11.7 per cent increase, and 4.16m passengers on international services, a 5.9 per cent increase.

Sales for the full year are expected to rise 9 per cent to Y1,02bn.

Tiger Oats margins rise despite more competition

By Jim Jones in Johannesburg

TIGER OATS, one of South Africa's largest food, fishing and pharmaceuticals groups, increased sales by almost one third in the year to September 30, following the integration of recent acquisitions, but warned sales growth is likely to slow.

Turnover advanced to R5.74bn ($2.18bn) in the year to September, from R4.40bn. Operating profit before investment income, interest and tax increased to R434m from R327m and pre-tax profit rose to R406m from R336m.

Mr Robbie Williams, managing director, said margins increased in spite of heightened competition as Tiger has emphasised production of value-added products. He added broiler chicken and egg businesses are targeted for capital investment as both have experienced strong growth.

Mr Williams expects some pressure on margins this year because of the Government's austerity measures and heightened competition. However, he says food and pharmaceuticals are less sensitive to economic cycles than other products.

Earnings increased to 158.1 cents a share from 126.5 cents and the total dividend has been raised to 54.5 cents from 43.5 cents. Tiger is controlled by Barlow Rand, the industrial and mining group.

● Imperial Cold Storage (ICS), the South African food company, also part of Barlow Rand, lifted sales volumes by 2 per cent and turnover by 14 per cent in the year to September 30 1989, helped by strong growth in the sales of dairy products, the directors say.

The year's turnover was R1.88bn against R1.65bn in the previous year, the operating profit before investment income and tax and interest payments was R56.0m against R44.3m and the pre-tax profit rose to R47.3m from R37.9m.

Weak gold price helps tip BIG into $1.96m loss

Kenneth Gooding, Mining Correspondent

FOREIGN exchange losses, a lower gold price and higher production costs pushed Bond International Gold, (BIG), which recently became a subsidiary of the LAC Minerals group of Canada, into a net loss of US$1.96m or 3 cents a share in the first quarter of its current financial year.

In the three months to September 30 last year, BIG, a New York-quoted group which encompassed most of the gold mining interests of embattled Australian entrepreneur Mr Alan Bond, produced a net profit of $1.92m. Mr Bond sold his 65 per cent stake to LAC last month for $374m.

BIG suffered an unrealised exchange loss of $2.78m in the quarter under review. It realised an average gold price of $367 a troy ounce compared with $409 in the same months last year.

The average cost of production, including credits for by-products, rose from $144 an ounce to $215 because a larger share of the company's production now comes from North America which have higher average costs than the company's El Indio mine in Chile.

Revenue in the quarter rose from $44.26m to $54.4m.

In August Mr Bond and BIG ended involvement in the so-called "Superpit" at Kalgoorlie in Western Australia by selling down his stake in Gold Mines of Kalgoorlie to the Poseidon Group. BIG now holds only 11 per cent and the results no longer include any contribution from the Australian interests.

Mr Alan Birchmore, chief executive, pointed out that, helped by three new mines recently completed, BIG would produce 650,000 ounces of gold this year compared with 404,010 ounces in 1988-89.

Last year, its first as a public company, BIG suffered a $69.9m net loss or one of $1.26 a share.

Canadian bank lifts provisions

By David Owen in Toronto

ROYAL BANK of Canada has become the third Canadian bank to raise its less-developed country (LDC) loan-loss provisions in recent weeks, in a move that will reduce after-tax earnings in 1989 by about C$500m (US$427m).

In all, the country's largest chartered bank has added C$875m to this reserve, which now stands at C$2.95bn, or 70 per cent of overall exposure. The bank's net exposure now amounts to C$1.25bn, representing about 27 per cent of shareholder equity.

Canadian Imperial Bank of Commerce and Bank of Montreal recently lifted LDC loan loss provisions by C$525m and C$850m respectively.

Malayan Banking ahead

By Lim Siong Hoon in Kuala Lumpur

MALAYAN BANKING, Malaysia's largest bank which is afflicted by severe bad debts, managed to raise pre-tax profit 87 per cent from 97m ringgit ($36m) to 182m ringgit for the year to June.

The group succeeded in lifting interest income 19 per cent to 603m ringgit, as well as trimming expenditure. Revenue totalled 1.9bn ringgit.

Loan losses rose 25 per cent to 1.9bn ringgit, including provisions for 715m ringgit in bad debts.

Largest losses came from the parent bank, followed by its subsidiary, Kwong Yik Bank, where the group injected 108m ringgit to make up for depleted reserves and a capital deficit.

In spite of these problems, the group remains one of the stronger financial institutions in Malaysia, with a reported 2 per cent rise in assets to 26bn ringgit.

Its reserves have also improved, to 926m ringgit at July 1 from 840m ringgit a year earlier.

Earnings per share doubled to 26 sen, and the group has proposed a 10 per cent final dividend.

NZ aims to heal rift with Japan over DFC

By Terry Hall in Wellington

MR GEOFFREY Palmer, New Zealand's Prime Minister, yesterday instructed Mr David Caygill, the Finance Minister, to redouble his efforts to heal the serious rifts with Japan which followed the collapse of DFC, the former state-owned bank.

Speaking after a meeting with Mr Hirohiko Otsuka, the Japanese Ambassador, Mr Palmer said he was concerned that Mr Caygill had so far been unable to explain why New Zealand would not "bail out" the merchant bank, which collapsed owing Japanese banks NZ$1bn (US$588m).

The former Development Finance Corporation was privatised last year.

Mr Palmer said he was concerned at the persistence of what he termed a misunderstanding with the Japanese over the situation and said the matter was occupying much of his time.

He added a further visit by a minister and officials to Tokyo may be necessary.

This was needed to clear up the resentment felt by the Japanese and to alleviate it as far as possible.

Mr Palmer said while the Japanese agreed they knew there was no legal government guarantee over the DFC, they still expected the Government to stand behind the bank.

"I think that there are some cultural factors in their judgment," he said. "It may be that in Japan such a thing happens. The Government stands behind it.

"That is not the case in New Zealand – and I think matters of that sort need to be explained more effectively."

Meanwhile, legal sources say the National Provident Fund, the quasi-state entity which bought 80 per cent of DFC, could have been forced to meet the debts of DFC if the Government had not intervened and placed the investment bank in statutory management.

They say that if the DFC collapse had been allowed to take its course and the bank had been placed in liquidation, creditors would have taken the case to the courts. The creditors, including Japanese bankers, argued that the NPF should pay DFC's debts.

However, the government decision to accept the reserve bank's recommendation and invoke statutory management bore out this course.

While exact figures are several weeks away, latest indications suggest DFC has lost up to NZ$500m.

This will not only wipe out the NZ$188m of shareholders' funds due to the NPF and 20 per cent minority shareholder Salomon Bros but also eat into the NZ$9bn owed to creditors, who are not being paid any interest on money owed to the DFC.

INTERNATIONAL CAPITAL MARKETS

BoJ to ease discounted lending to foreign banks

By Ian Rodger in Tokyo

FOREIGN BANKERS in Japan have warmly welcomed the Bank of Japan's plan to give them improved access to its discount facilities.

The issue has been a sore point among foreign banks for several years because they feel at a great disadvantage to Japanese banks, which have access to large sources of low-cost funds, either from retail deposits or from direct borrowing from the central bank.

A few years ago, the BoJ created a system for foreign banks under which they could rediscount bills, but only up to levels related to actual import financing requirements.

The total of loans under this system and another for rediscounting local commercial bills has grown to only Y150bn, while the Japanese banks' borrowing from the central bank at the discount rate has reached Y6,200bn.

BoJ officials yesterday said they were studying a system for providing collateral-based lending to foreign banks at the discount rate. Details would be revealed in a week or two.

"Foreign banks should be delighted," Mr Michael Tomalin, chairman of the European Universal Banking Committee in Tokyo and general manager of Barclays Bank in Japan, said. "This will give us access to funds on the same terms as Japanese banks."

It remains to be seen what conditions may be placed on the facility, such as the total amount available and whether or not foreign banks will be obliged to meet BoJ reserve-to-asset ratios and other supervisory requirements.

But Mr Tomalin said the move should be welcomed as much for its psychological value as for its ultimate effect.

"It shows that the BoJ is concerned that the share of foreign banks is declining in the Japanese market."

Warning over 'encroachment' by big banks

THE UNIMPEDED entry of Japan's big banks into the local capital market would damage its growth, given their dominance over domestic industry, the Japan Securities Dealers Association said in its monthly report, Reuter reports.

"City banks and other major banks are bringing the regulatory and rigid nature of financial markets into the local capital market, which by its nature must be a liberal place," the report states.

It describes the role of trustee banks in Japanese corporate bond issues as an impediment to the development of the market.

"The first-tier city banks and other major banks are trying to discourage bond issues to maintain the amount of their corporate lending and thus are causing a hollowing-out of the domestic capital market.

"The entrance of the major banks into local capital market will thus erode benefits for users," it concludes.

HKFE wins approval for Hibor futures contract

By Deborah Hargreaves

THE Hong Kong Futures Exchange is preparing for the launch of its long-awaited interest-rate futures contract after receiving the go-ahead from the colony's market regulatory agency.

The Government is now due to rubber-stamp the futures contract on the Hong Kong Interbank Offered Rate (Hibor) after it received approval on Monday from the Securities and Futures Commission and before its scheduled start-up in mid-February.

Although it was proposed over two years ago, the Hibor futures contract was postponed when 1987's stock market crash sent Hong Kong into a freefall and forced an overhaul of the market's regulation.

It will be the first new futures contract to start up under the new market regime.

In the aftermath of Black Monday, the HKFE has strengthened its clearing system and added a new reserve fund of £100m to boost the capitalisation of its market.

The HKFE currently trades futures on the Hang Seng stock index as well as gold, soyabeans and sugar. Total daily turnover at the exchange remains low at little over 3,000 contracts.

The exchange is hoping that Hibor futures will quickly boost its volume figures and at least match, if not exceed, trading of some 1,000-2,000 lots a day in the Hang Seng contract.

Leading Hong Kong banks have expressed an interest in using the three-month interest rate futures contract to hedge their cash market activity currently estimated at almost HK$2bn.

● The Bank of France has sold a further FFr4.73bn of bills to buyers eligible to take up paper after Monday's tender at the average tender price. It sold FFr2.06bn of five-year paper, FFr1.35bn of two-year paper and FFr892m of 13-week bills.

FT INTERNATIONAL BOND SERVICE

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US DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
B.F.C.E. 9¼ 95	150	102⅝	103	-0⅛	-0½	8.64
Brit. Tel. Fin. 9⅞ 98	250	103⅞	104⅛	-0⅛	-0⅝	8.73
Canada 9 96	1000	103	103½	0	-0¼	8.30
C.C.C.E. 9¼ 95	300	102¼	102⅞	0	-0½	8.59
C.N.C.A. 9⅞ 93	150	101⅝	102⅛	+0⅛	-0⅜	5.82
Credit National 8¼ 93	200	98⅞	99⅜	0	-0½	8.52
Credit National 7⅞ 92	100	97⅛	97⅝	0	-0¼	8.57
Credit National 9½ 92	160	†101⅞	102⅛	0	-0⅜	8.77
Dai-Ichi Kan 9⅝ 92	150	102	102⅜	-0⅛	-0½	8.74
Denmark 8¼ 94	150	†97⅞	98⅜	0	-0½	8.73
E.E.C. 7 91	100	97	97½	+0⅛	-0¼	8.49
E.E.C. 10 93	140	104	104⅛	-0¼	-0⅛	8.51
Eurofima 10⅛ 93	100	†104⅜	104⅛	0	-0¼	8.50
Elec. De France 9 98	200	102¼	102¾	0	-0½	8.55
Elec. De France 9½ 99	200	104⅞	105	0	-0¼	8.68
Finland 9 96	250	101⅝	102	-0⅛	-0⅛	8.60
Finn. Exp. Cd. 8½ 92	200	99½	100	0	-0⅜	8.58
Finn. Exp. Cd. 9⅞ 95	200	102¾	103⅛	-0⅛	-0⅛	8.71
Ford Motor Credit 8 91	250	†98⅞	99⅛	+0⅛	-0⅛	8.84
Gen. Elec. Cap. Corp. 9 93	500	†101¼	101¾	+0¼	-0¼	8.54
Gen. Elec. Cap. Crp. 10 1/2 91	300	101¼	102⅜	0	-0½	8.80
G.M.A.C. 9 96	300	100⅛	100⅝	0	-0⅝	8.91
Gen. Mtrs. Corp. 9⅛ 92	200	101	101½	+0⅛	-0¼	8.55
IBM Credit Corp. 8⅝ 92	400	100⅛	100½	0	0	8.53
IBM Credit Corp. 8⅞ 91	250	100⅛	100⅜	0	-0⅜	8.65
IBM Credit Corp. 9 92	250	101⅜	101¾	0	-0¼	8.32
IBM Credit Corp. 9½ 92	250	101⅞	102⅛	0	0	8.40
Italy 8½ 94	1500	99½	99⅞	-0⅛	-0⅛	8.59
Italy 9½ 95	1000	103¾	104⅜	-0⅛	-0½	8.62
Italy 9⅝ 99	1000	105¼	105⅝	0	-0½	8.72
Itoh C. W/W 4⅝ 94	1000	103⅛	104⅛	-1⅞	-1⅛	3.75
Japan Dev. Bank 10 96	200	†106⅝	107⅛	-0⅛	-0⅛	8.56
KFW Intl. Fin. 9 94	300	101¼	101⅝	-0⅛	-0⅜	8.63
L.T.C.B. of Japan 9¼ 92	200	101	101⅜	-0⅛	-0½	8.80
Metropolis Tokyo 9½ 93	200	102¼	102¾	0	-0⅜	8.54
Nippon Tel.&Tel. 9⅞ 98	250	103⅞	104⅛	0	-0⅝	8.69
Norway 8¼ 93	500	100½	101	-0⅛	-0½	8.45
Portugal 8¼ 91	300	†98½	99	0	-0⅛	9.19
Sumitomo Bank 9⅝ 92	150	†102⅛	102⅝	0	-0⅜	8.65
Sumitomo Corp. W/W 4 93	1500	111½	112½	-2¼	-2⅞	0.65
Sweden 8¾ 96	200	101	101½	+0⅛	-0⅜	8.47
Sweden 8½ 92	200	†99⅛	99⅝	+0⅛	-0½	8.74
Toyota 9½ 91	200	101⅜	102	-0¼	-0⅜	8.60
Toyota Mtr. Corp. W/W 4 93	1500	103⅞	104⅞	-0⅝	-2⅛	2.70
Victorian Rep 11⅝ 92	150	105⅝	106	0	-0⅜	8.94
World Bank 8⅜ 99	1500	100⅛	100⅜	0	-0⅜	8.45
World Bank 9 97	300	102¼	102⅝	0	-0⅜	8.56
World Bank 9 93	300	101⅝	102	0	-0½	8.40
World Bank 9¼ 98	300	103¾	104⅛	0	-0⅜	8.61
World Bank 9⅝ 99	500	106⅛	106⅜	0	-0½	8.60
World Bank 9¾ 96	300	105⅜	105⅝	-0⅛	-0¼	8.59
Average price change... On day -0⅛ on week -0⅜						

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Asian Dev. BK. 6 94	200	92⅛	92⅞	-0¼	-1⅛	7.83
Austria 6¾ 99	750	95¼	95⅞	0	-1	7.40
Bk. Frgn. Econ. USSR 7 96	750	†93⅞	94⅞	-0⅛	-0⅝	8.15
Bank of Tokyo 5¾ 93	100	93¾	94⅛	0	-0½	7.86
Commerzbank o/s. 5⅜ 93	300	93½	94½	0	+0⅛	7.56
Credit Foncier 6¾ 99	500	95¼	95¾	-0⅛	-1	8.45
E.I.B. 6¼ 99	600	91½	92⅛	0	-1½	7.51
E.I.B. 6½ 99	300	93⅝	94	0	-1⅜	7.44
E.I.B. 6⅝ 96	600	95½	96⅛	+0⅛	-1⅛	7.44
E.I.B. 6⅞ 95	300	96⅝	97¼	0	-1¼	7.54
Euro. Coal & Steel 5⅞ 97	175	90¾	91⅝	-0⅛	-0⅝	7.52
Eurofima 6¼ 96	100	92⅝	93⅛	0	+0⅜	7.63
Elec De France 5¾ 97	300	90½	91⅛	+0⅛	0	7.35
Hydro-Quebec 6¾ 99	300	94⅞	95⅝	0	-1	7.46
Japan Dev. Bk. 5⅜ 95	300	89⅞	90⅝	-0⅛	-0⅞	7.61
Japan Finance 5¾ 97	100	89⅜	90¼	+0⅛	-1	7.63
I.A.D.B. 7¼ 99	300	98⅛	98⅞	0	-1	7.45
Ireland 6½ 97	300	92⅝	92⅞	-0⅛	-1⅛	7.81
Ireland 7¼ 99	500	97	97½	0	-1	7.65
Malaysia 6¼ 94	150	93⅝	94⅜	-1	-1½	7.82
Nat. West BK. PLC 6 98	300	88¾	89½	-0⅛	-1	7.79
N.H.L. Finance 6¼ 95	200	†91½	92	0	+0¼	8.03
Nippon Telg.&Tel. 6 95	400	93⅞	94⅛	+0⅛	-0⅛	6.52
Oesters. Kontbk. 5 93	300	93⅛	93¾	0	-1⅛	7.37
Portugal 5¾ 92	150	95⅝	96⅛	-0½	-0⅛	7.51
Portugal 6⅝ 95	150	96⅛	96⅝	-0⅜	-0¼	7.41
Privatbanken 5¼ 93	150	92⅛	93¼	-0⅛	-0⅜	7.81
Royal Insurance 5½ 92	300	94⅞	95⅜	-0⅛	+0⅛	7.76
Turkey 6½ 95	500	91⅞	92⅝	+0⅛	+0⅛	8.29
Union Bk. Finland 5½ 94	200	91¾	92¼	0	-0¼	7.80
World Bank 6 98	500	90	90⅝	-0¼	-1⅜	7.51
World BK. 6¼ 97	600	92⅝	93¼	0	-0⅜	8.10
World Bank 6¾ 99	600	95⅛	95½	0	-1⅛	7.43
Average price change... On day 0 on week -0¾						

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
African Dev. Bk. 5 96	150	†90½	91½	+0⅞	+0¼	6.70
Asfinag 5 03	100	†86½	87½	+1¾	+0½	6.45
B.F.C.E. 4½ 98	200	†87½	88½	-0¼	-0⅝	6.34
B.M.W. Fin. Neth. 5 13	150	†84	85	-0⅛	-1⅞	6.28
Britannia B/S. 4¼ 94	100	†87¾	88	+0⅜	-0⅛	7.46
CIR. Int. W/W 3 93	125	*†87⅛	87⅛	0	+0½	7.07
Credit Lyonnais 4¾ 00	100	†85	86	-0⅝	0	6.71
E.I.B. 4⅝ 98	150	†89	90	0	-0¼	6.23
Finn. Exp. Cd. 8¼ 92	75	†100½	100¾	0	+0¼	7.99
Fletcher Chall. 4⅞ 98	150	†84½	86	0	+0½	7.27
I.A.D.B. 6 2004	200	†97	97½	0	-0⅝	6.29
Kobe City 4⅝ 98	150	†88½	89	0	+0¼	6.35
Leeds Perm. B/S. 4⅛ 93	200	†90	90¼	-0⅛	-0⅛	7.48
Malaysia 5¼ 98	100	†82¼	82½	-1⅜	-2¼	8.16
Marwell Comm. Crp. 5 95	150	†78	78¼	0	-3⅞	10.32
Nat. Bk. Hungary 5½ 94	75	†88	90	+0¼	-0½	8.21
Nationwide Ang. B/S. 4 93	200	†89¼	89½	+0⅝	-0¼	7.46
Prov. Newfoundland 5 03	150	†86	87	0	-2½	6.49
Thailand 4⅝ 95	200	†86	87	0	0	7.64
World Bank 5 03	150	†86	86¾	-0⅛	-0¼	6.53
Average price change... On day +0 on week -0½						

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Canada 6⅛ 92	80	99⅞	100⅛	0	-0⅜	6.09
Canada 5⅝ 93	80	98⅝	98⅞	-0⅜	-1	6.00
Eurofima 5 1995	20	95⅛	95⅜	-0¼	-1	6.01
E.I.B. 4⅞ 93	30	96¼	96½	-0⅛	-0⅞	6.10
Ireland 5⅛ 93	30	96⅜	96⅞	-0⅛	-1	6.22
Norway 5⅛ 95	50	96⅝	96⅝	-0⅛	-1⅜	5.89
Sweden 4⅝ 93	50	95½	95¾	-0⅛	-0¼	6.03
World Bank 5⅛ 98	10	94¼	94⅜	-0⅜	-1½	5.97
World Bank 7 94	20	103⅝	104⅛	0	-0⅞	5.97
Average price change... On day -0⅛ on week -0⅞						

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Abbey Nat. 10¼ 94 C$	150	97½	98	+0⅛	-0⅝	10.85
Abbey Nat. 11⅝ 95 £	100	96¼	96⅞	+0¼	0	12.51
Aegon 7¾ 92 FL	100	99¾	100⅜	+0⅜	0	7.90
Alg. Bk. Ned. 5¾ 93 FL	200	93⅛	93⅝	+0⅛	-0¼	8.06
Austria 7½ 94 ECU	100	93½	94	-0⅜	-0¼	9.28
Bk. Nova Scot. 14⅛ 90 A$	75	—	—	—	—	—
Barclays Aus. 13½ 91 A$	100	96⅛	96⅝	-0½	+0¼	15.78
Belgium 8⅛ 94 Ecu	150	95⅞	96⅜	0	-0⅝	9.23
BP Capital 9¾ 93 £	100	91¾	92¼	+0⅛	+0¼	12.72
British Airways 10 98 £	100	89⅛	89⅝	+0⅛	+0⅜	12.07
Brit. Telecom 9½ 93 £	150	91½	92	-0⅛	-0¼	12.63
Comm. Bk. Aust. 12⅝ 93A$	100	†92⅝	93⅛	-0⅛	+0¼	15.29
Comm. Bk. Aus. 13⅞ 94 NZ$	60	104¼	105¼	-0⅝	+0⅛	12.34
Credit Foncier 9 96 Ecu	100	98⅜	98⅞	-0¼	-0⅞	9.27
CrLocalFrance 9¼ 92Ecu	100	99⅛	99⅝	-0⅛	-0½	9.49
Deut. Bk. Aus. 13⅞ 93 A$	125	95⅛	95⅝	-0¼	0	14.95
Deutsche Bk. Fin. 15 94 A$	100	101¼	101½	-0⅛	+0½	14.52
E.I.B. 7 96 LFr	100	†95¼	96½	0	0	7.85
E.I.B. 7⅛ 99 FL	150	—	—	—	—	—
E.I.B. 9 99 Ecu	150	99⅛	99½	-0⅛	-0⅜	9.11
Eurofima 7⅞ 94 Ecu	100	94	94½	-0⅜	-0⅞	9.31
Export Dv. Crp. 8¾ 92Ecu	100	98⅜	98⅞	-0¼	-0½	9.35
Fed. Bus. Dv. Bk. 9 94 Ecu	100	98⅜	99	0	-0½	9.35
Fed. Bus. Dv. Bk. 9¾ 92 C$	75	†97½	98	0	-0⅝	10.74
Fed. Bus. Dv. Bk. 10½ 93C$	50	†99¼	99¾	0	-0⅝	10.63
Ferrv. Stato 7¾ 93 Ecu	100	94⅜	94⅞	-0¼	-0⅝	9.57
Ford Cr. Can. 10¼ 93 C$	100	†99⅜	99⅞	0	-0⅝	10.85
Ford Cred. Can. 10⅞ 96C$	125	100½	101	0	-0⅝	10.68
Ford Cred. Fund. 10¾ 93£	60	93⅞	94⅜	+0⅛	+0¼	12.71
G.M.A.C. Canada 11 3/4 94C$	100	103	103½	+0⅛	-0¼	10.75
Heineken 7⅜ 94 FL	150	100⅞	101⅜	+0⅜	+0⅛	7.68
Hydro-Quebec 11 99 C$	400	103	103⅛	0	-0½	10.46
Lloyds Bank 10¼ 98 £	150	90⅛	90½	+0⅛	+0⅛	12.15
Lloyds Bank 11⅜ 98 £	100	93¼	93⅞	+0⅛	-0½	12.60
Montreal Tst. 10¾ 93 C$	100	†98¼	98¾	0	-0⅜	11.23
Nat. Aus. Bk. 14¼ 94A$	100	97⅝	98⅛	-0⅜	0	15.39
New Zealand 9½ 93 £	100	90⅝	91⅛	+0⅛	+0⅛	12.87
O.E.K.B. 10¼ 99 C$	150	99⅜	99⅞	+0⅛	-0⅜	10.30
Privatbanken 7½ 94 LFr	500	†97	98	0	+0¼	8.19
Royal Bk. Scot. 10⅝ 98 £	125	92¼	92¾	+0¼	+0¼	12.12
Saskatchewan 9⅞ 91 C$	150	†98	98½	0	-0⅝	10.98
Saskatchewan 10¼ 93 C$	200	99⅛	99½	0	-0½	10.49
State Bk. NSW. 13⅞ 93A$	100	95	95⅝	-0⅜	0	15.56
Sweden 7½ 93 Ecu	250	94	94⅜	-0⅛	-0½	9.31
Sweden 15 94 A$	100	101½	102	-0⅜	+0⅜	14.36
Toyota Mtr. Cr. 11⅜ 92C$	150	101¼	101⅝	+0⅛	-0½	10.66
World Bank 7⅛ 99 FL	300	95¼	95¾	—	—	7.80
World Bank 13¾ 92 A$	100	97⅞	98⅜	-0⅜	+0⅜	14.17
World Bank 14¼ 94 A$	75	98⅝	99⅛	-0⅜	0	14.54
Zentrspk. 13¼ 93 A$	75	†95⅜	95⅞	-0⅛	0	14.78

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn
Alliance & Leic. Bld 94 £	.08	99.77	99.82	24/01	15.21
Bank of Greece 99 US	0¼	99.71	99.81	8/03	9¼
Belgium 91 US	0	100.13	100.23	21/02	8.81
Chelt. & Gloucester 94 £	.063	99.72	99.77	30/11	14.06
Credit Foncier 98 US	.063	99.90	100.00	20/04	8.31
Dresdner Finance 99 DM	.031	99.89	99.98	28/01	8.16
EEC 3 92 DM	0	100.02	100.12	22/02	6⅛
Halifax BS 94 £	.1	100.09	100.14	9/11	13.97
Invt. In Industry 94 £	0¼	99.96	100.06	24/11	14.06
Leeds Perm. B/S. 94 £	0⅛	100.04	100.09	15/01	15.37
Milk Mkt. Brd. 5 93 £	0⅛	99.84	99.89	29/12	14.94
New Zealand 5 97 £	.07	99.98	100.08	18/11	13.19
Northern Rock 92 £	0½	99.86	99.91	20/01	5¼
State Bk. New. 98 US	.188	100.19	100.29	11/02	8.81
Woolwich Equit. BS. 93 £	0⅛	99.94	99.99	15/01	15.37
Woolwich 5 95 £	0⅛	99.88	99.93	21/11	14.06
Average price change... On day -0.01 on week -0.01					

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
Alcoa 6¼ 02 US	8/87	62.	113⅝	114⅝	-1⅛	3.67
Amer. Brands 7⅞ 02 US	9/87	56.7	118¼	119¼	-3⅛	-1.29
CBS. Inc. 5 02 US	4/87	200.	100¼	101¼	-1⅛	3.20
Dai-Ichi Kan. 3⅞ 04 US	7/89	3486.	98	99	-0⅜	2.49
Primerica 5½ 02 US	4/87	66.75	73½	74½	-0½	75.60
Eng. China Clay 6½ 03 £	9/88	4.8	86⅛	87⅛	0	4.25
Fujitsu 3 99 US	5/84	1106.	207	208	-2⅛	-2.14
Ladbroke 5⅛ 04 £	6/89	7.1	98⅜	99⅜	-0⅛	141.24
Land Secs. 6¾ 02 £	6/87	6.72	84⅛	85⅛	+0⅛	10.53
Minolta Camera 2¼ 94DM	2/86	1084.	105⅛	107	-0⅞	9.03
MCA Inc 5½ 02 US	9/87	69.62	98⅞	99⅞	-1⅜	13.51
Mitsubishi Bk. 3½ 04US	5/89	3266.	92⅛	93⅛	-0½	3.99
Next Plc 5¾ 03 £	11/87	4.3	95⅛	96⅛	-0⅛	312.26
[illegible] 2⅞ 03 US	4/88	884.	125⅝	126⅝	+0⅛	-0.58
Omnicom Inc. 6 1/2% 04 US	10/89	28.	101	102	-0⅛	20.94
[illegible] 2¾ 02 US	4/87	1310.	279½	280½	-5	-1.45
Ranks Hovis 4¾ 03 £	†1/88	3.5	119½	120½	+0⅛	-3.67
Redland 7¼ 02 £	1/87	5.4	98⅛	99⅛	+0⅛	2.48
Saatchi&Saatchi 6¾ 03 £	†10/89	4.41	92⅛	93¼	+0⅛	26.24
Silicon Graphics 8 04 US	6/89	23.18	110⅛	111⅛	-3⅛	14.61
Sumitomo Bank 3¼ 04 US	2/89	3897.	81⅜	82⅜	-0⅛	5.27
Texas Inst. 2¾ 02 US	9/87	82.87	74⅜	75⅛	-0⅝	106.98
Utd Newspapers 8 04 £	10/89	8.77	109	110	-0⅛	111.40
W.R. Grace 6½ 02 US	9/87	42.12	90½	91½	-0⅞	31.60

* No information available-previous day's price

† Only one market maker supplied a price

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week = Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte = Date next coupon becomes effective. Spread = Margin above six-month offered rate (‡three-month; §above mean rate) for US dollars. C.cpn = The current coupon.

Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day = Change on day. Cnv date = First date of conversion into shares. Cnv. price = Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem = Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

Oslo bourse fines DnC and Norsk Hydro

By Karen Fossli in Oslo

OSLO Stock Exchange officials have levied fines totalling NKr1.8m ($260m) on Den norske Creditbank and Norsk Hydro for violation of disclosure rules. The companies sold shares in June without informing bourse officials until October.

This is the first time the bourse has fined companies for rule violations of this kind. Norsk Hydro, Norway's largest stock market-listed company, intends to appeal to the bourse appeal commission. DnC may follow suit.

In June, DnC agreed to sell Norsk Hydro a share stake of just under 10 per cent in Saga Petroleum, Norway's largest independent oil company, for NKr196 a share. However, the companies did not inform the bourse until four months later.

Bourse officials said that it had fined DnC NKr1.5m and Norsk Hydro NKr300,000. Earlier DnC had failed to sell the stake to Total Marine Norsk, the Norwegian unit of CFP, the French Total oil group, following the refusal by Saga's board to change the company's statutes to allow a majority foreign shareholding.

However, that agreement remains open until December 31, or until CFP declares its intention to pull out of the deal. At that point the DnC-Hydro deal will take affect.

Saga must first approve the DnC-Hydro share sale which would increase Hydro's stake in Saga to 14 per cent. Saga has already declared itself against the deal.

DnC, hard-pressed by losses on loans and guarantees, is keen to raise fresh capital

Israel offers options pegged to $

THE BANK of Israel is to introduce foreign currency options as part of its plans to liberalise Israel's capital market, Reuter reports.

The central bank said it would offer local banks a daily tender of $3m in dollar-pegged options from tomorrow. The options will not involve any foreign currency purchases and all transactions will be made in shekels.

Central bank officials said initially only dollar options would be traded. They will permit Israeli companies to protect themselves against fluctuations in the dollar's exchange rate.

Mr David Klein, head of the Bank of Israel's monetary department, said he hoped Israeli banks would form an over-the-counter secondary market because they would be allowed to issue any amount of their own dollar options.

Mr Klein estimated there could be a few hundred million dollars' worth of trading on such a secondary market.

The Bank of Israel has begun loosening regulations in its capital markets. It has announced plans to allow Israelis to invest in foreign stock markets for the first time through special mutual funds.

Investa sets up environmental mutual fund

By Karen Fossli

INVESTA, Norway's leading investment company, has established Aksjefond Miljoerinvest, a mutual fund investing in environmental-sector companies. The fund has capital of NKr10m ($1.4m).

Mr Carlos Joly, an administration executive, said: "The criteria for our investment is strict. For example, qualified companies will use recycled material in their production process or manufacture or will produce equipment which will restrict pollution or they may even produce biodegradable consumer products."

Though the new fund will mostly limit its investments to listed companies, it will consider companies not listed but close to being floated. Aksjefond's target is institutional investors, pension funds and individuals. The minimum investment is NKr2,000.

According to Mr Joly there are only a "handful" of listed Norwegian companies that qualify for the fund. Mr Joly said that as far as he knew there was only one similar fund in the UK and two in the US.

DB issue priced

DEUTSCHE BANK shares to be issued in Tokyo will be priced at DM646, Reuter reports. The institution, the first West German bank to issue shares in Japan, last month announced plans to float a nominal DM60m, or 1.2m shares, on the Tokyo stock market.

CLEARING THE AIR ABOUT HIGH-DEFINITION TELEVISION No. 4

DOES AMERICA'S PROGRESS IN HDTV DEPEND ON UNCLE SAM? OR UNCLE SUGAR?

The professional television industry already has all the ingredients to succeed in high-definition television. In fact, what we really need from the Federal Government is not a cup of sugar, but the recipe.

Spending is no substitute for leadership.

We need Uncle Sam to set the technical parameters for delivering motion-picture-quality television into the home. Once these delivery standards have been set, the industry can implement production standards for making HDTV programs.

Only by setting standards can we reasonably limit the risks of entering the market.

But it's to no one's advantage to make a decision as far-reaching as this without examining all the options. And considering all the consequences—economic, cultural and political.

Unfortunately, the delivery standards for conventional television, set almost 50 years ago, cannot accommodate true high-definition TV with its voracious demands on our limited broadcast spectrum.

Economics and common sense suggest that HDTV should be compatible with existing TV receivers. Some sort of enhanced-definition television could be an interim step to true HDTV. However, other nations are already moving ahead and the U.S. should not accept standards that are substantially and *permanently* lower than those of the nations we compete with.

The U.S. should choose an HDTV standard that ensures a path to the future.

What appears to be a safe path today could turn into a dead end tomorrow. Or a mine field.

The current NTSC standard, named for the National Television System Committee which established it, was probably higher than it needed to be at the time it was set. That's one reason why it's lasted for almost 50 years.

Likewise, the standard for HDTV needs to be of high-enough quality to allow for the ingenuity of a free market. To allow for innovation, natural cost reductions, and a free flow of technology to other industries. At a minimum, it should allow the U.S. to compete successfully in other markets, like Europe and Japan, which already have committed to the higher standards of true HDTV.

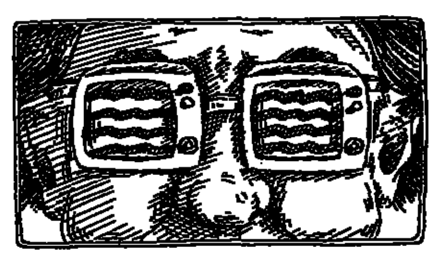
It looks good at home, but can it compete in open waters?

We're not talking about competing just for the sale of TVs and VCRs. People who view HDTV solely as a potential savior of the American consumer electronics industry are missing the big picture.

Granted, the manufacture of consumer electronics is a large industry—one which represents a lot of money and a lot of jobs. **But making television sets is a narrow endeavor compared to making *Television*.**

Just think of the dollars and people involved in the *professional* TV industry. The thousands of program production and post-production companies who make and export TV shows and commercials. The 1400 American television stations and nearly 10,000 cable systems who bring those programs into the home. And the professional equipment manufacturers, like Ampex, who make the equipment and videotape for recording, producing and delivering television programs.

You may be surprised to know that the United States is the world leader in all of these areas.



People who think the HDTV issue is just about TV sets aren't getting the picture.

More important, it is in the professional TV industry where new technology like HDTV is spawned—not in consumer electronics.

The VCR and portable video camera were professional tools long before they became available at local retailers. The professional TV industry has also spawned technology now used in myriad other fields—from education to aerospace, from medicine to police investigation.

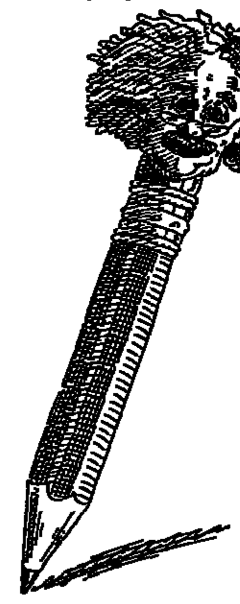
Most of these technical achievements were produced by independent American companies without government assistance.

HDTV can happen the same way.

An amazing number of advances in other fields are a direct outgrowth of TV technology.

Whether or not we need "Uncle Sugar" to subsidize research and development or to provide tax breaks or trade restrictions is a matter of opinion. One thing's clear: Uncle Sam must set the standards and if those standards aren't competitive in world markets, all that sugar is going to go to waste.

We need some decisions. Fast decisions would be good. Educated ones would be better. For more information about this important issue, write to us on your letterhead and ask for your copy of our HDTV brochure. We're the world's leading professional TV company.



Ampex Corporation
401 Broadway, Dept. 7J
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IF YOU WATCHED TV TODAY, YOU SAW AMPEX.

AMPEX

INTERNATIONAL CAPITAL MARKETS

ENEL raises floating-rate issue to L400bn

By Andrew Freeman

EUROBOND MARKETS lacked direction yesterday, despite a healthy volume of new issues. Secondary trading was thin, although there was support for Eurosterling bonds which were bought on weakness.

The largest Eurolire deal

INTERNATIONAL BONDS

was issued by San Paolo for ENEL, the state-guaranteed electrical utility. The 10-year floating-rate issue was increased to L400bn after good demand from institutions. The first coupon was fixed at 12.3 per cent.

The bonds were quoted inside fees at 99.35 bid before the increase and fell just outside fees to 99.15 bid thereafter.

The Euroyen sector was active amid speculation that several more deals were in the pipeline. Daiwa brought a Y20bn deal maturing in March 1993 for Abbey National Treasury Services.

Traders said the terms were on the tight side given the lack of positive sentiment for bonds in Tokyo. A Daiwa official agreed sentiment was poor, but argued that the coupon had attracted interest. The bonds were quoted at less 1⅝ bid, a discount equivalent to full underwriting fees, although elsewhere there were prices around less 1½ bid.

Yen swap rates remained attractive and the issue proceeds were swapped into floating-rate US dollars.

Yamaichi was the lead manager of a Y10bn three-year deal for Commerzbank Overseas Finance which was launched comfortably before the Abbey National issue. The bonds carried a coupon of 6⅛ per cent and were critically described by some traders. Yamaichi was quoting the paper on fees at less 1⅝ bid.

Wood Gundy launched a C$75m 15-year unswapped deal for Hamilton Wentworth, a regional municipality in Ontario. The deal was syndicated as a reoffering, with banks agreeing not to offer bonds below the 1⅝ selling concession. At that level, the yield was around 37 basis points over government bonds. When the syndicate agreement was lifted, the bonds traded at less 1.35 bid.

Secondary market trading in the sector was improved, with prices rising by around ⅛ point in two-way business. Goldman Sachs found a further pocket of demand and increased its recent Electricité de France 10-year deal by C$25m to C$125m.

The spread of the Province of Alberta $750m deal widened to around 50 basis points as Treasuries gained ¼ point on news that the quarterly refunding was postponed.

Westpac brought an A$50m unswapped issue for IBM Australia Credit to a good reception. The bonds were trading at less 1.45 bid, inside full fees.

In Switzerland, late in the day, UBS launched a SFr100m seven-year deal for Finance for Danish Industry which met some demand and traded at less 1½ bid, just inside fees to co-managers.

A SFr200m deal with equity warrants for Honshu Paper was quoted by Credit Suisse at less 1¾ bid, just outside fees. The recent SAS SFr100m 6½ per cent deal improved by ¾ point to less 1⅛ bid.

In Germany, a DM70m deal with warrants for Ono Sokki launched by Commerzbank was trading on fees at 97¾ bid. Turnover on the secondary market was quiet, with prices mixed across a narrow range.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
LIRE						
ENEL(a)‡◆	400bn	(a)	100	1999	70/40bp	San Paolo Bank
CANADIAN DOLLARS						
Hamilton Wentworth(d)◆	75	10¼	101.35	2004	1⅞/1⅝	Wood Gundy
EDF(e)◆	125	9¾	99⅞	1999	2/1⅝	Goldman Sachs Int.
AUSTRALIAN DOLLARS						
IBM Australia Credit◆	50	16	102	1992	1½/1	Westpac Banking
SWISS FRANCS						
Fin.for Danish Ind.Int(b)★◆	100	6½	100¾	1996	1¾	UBS
Honshu Paper Co.★†	200	1⅝	100	1994	1⅝	Credit Suisse
D-MARKS						
Ono Sokki Co.†	70	(1½)	100	1993	2½/1⅞	Commerzbank
YEN						
Abbey National(b)◆	20bn	6⅞	101⅛	1993	1⅞/1¼	Daiwa Europe
Commerzbank O'seas Fin.(b)◆	10bn	6⅛	101⅛	1992	1⅞/1¼	Yamaichi Int. (Europe)
Saxad Enskilda Banken(c)◆	3bn	7	101⅛	1991	1¼/⅞	Nippon Credit Int.

†★Private placement. ‡With equity warrants. ‡Floating rate notes. ◆Final terms. a) Coupon mean of 6-month Libid and latest net annual yield of Italian bond index (ICM) - rounded to nearest 0.05%. Call from 2nd coupon date at par. b) Non-callable. c) Redemption linked to Nikkei stock index. d) Put at par after 5 and 10 years. e) Issue increased from C$100m, fungible with existing C$100m issue.

Thai $30m fund aims to invest in small companies

By Roger Matthews in Bangkok and Deborah Hargreaves in London

A NEW, if somewhat riskier, opportunity to participate in Thailand's explosive economic growth is provided today with the listing on the London Stock Exchange of the Siam Smaller Companies Fund.

As the name indicates, the $30m fund has been designed specifically to invest in smaller companies in a market dominated in terms of both capitalisation and turnover by a handful of large organisations.

The five largest companies quoted on the Securities Exchange of Thailand account for more than 30 per cent of the market's overall capitalisation and the top 15 companies for nearly 50 per cent.

The Siam Smaller Companies Fund aims largely to ignore the big-league shares and concentrate instead on the 100 or so companies that are capitalised at less than $100m.

It is also prepared to take positions in private companies with plans to go public.

Royal Trust Asset Management (Asia), the Hong Kong arm of Royal Trustco of Canada, argues that many of these companies have the greatest prospects for long-term capital appreciation although, given the low levels of disclosure required in Thailand, they may also pose some of the greatest research difficulties.

The fund's managers hope to have the fully-subscribed $30m invested within six months, a timescale that many observers find optimistic. Apart from offering a new portfolio concept to the Thai market, it will also give investors a rather broader exposure to Thailand's development.

Riding on a wave of interest in emerging country funds, Merrill Lynch yesterday launched its Indonesian Capital Fund. The new fund gives investors a chance to take part in the development of one of the fastest-growing stock markets in south-east Asia without the enormous practical difficulties they would face in buying equities directly.

The $30m fund, which is offering 3m shares and 600,000 warrants, is expected to attract largely institutional buyers as well as some expatriate investors from the Far East.

The growth potential in the Indonesian stock market is huge and the market is currently doubling in value almost every six months. Country funds have regained enormous popularity after receiving a setback from the 1987 stock market crash. Over 20 funds have been launched so far this year, more than double the total for last year.

Opposition mounts to DGZ Landesbanken plan

By Haig Simonian in Bonn

DETAILED NEGOTIATIONS on restructuring West Germany's public-sector Landesbanken (state banks) could drag on well into next year if political opposition blocks a simple solution, according to the German Savings Bank Association.

Mr Helmut Geiger, president of the association, said he hoped the plan to create a single "summit" bank for Germany's 11 Landesbanken could be realised most quickly by using Deutsche Girozentrale, Deutsche Kommunalbank (DGZ), the small Frankfurt public-sector bank which specialises in the wholesale markets, as the basis for the new institution.

Using DGZ, which is owned by the Landesbanken and regional savings organisations, would allow a new institution to be created on the basis of federal law. Moreover, a decision to proceed in principle could come as early as the bank's annual general meeting in December.

However, Mr Geiger recognised the substantial political opposition to the plan, put forward by McKinsey, the management consultants, to merge the activities of the Landesbanken into a new bank.

Mr Geiger said he would soon be talking to both the state governments of Rhineland Platinate and Bavaria – the two strongest critics of the McKinsey suggestions – to see whether they could be brought round. On the basis of those talks, it should be possible to see whether a solution using DGZ was feasible.

Meanwhile, Mr Geiger stressed that the authorities in North Rhine Westphalia were not opposed to the plan in principle, but argued that the legal basis for any institution representing the Landesbanken should be grounded on bilateral treaties between Germany's states.

With important state elections next year in both North Rhine Westphalia and Lower Saxony, Mr Geiger made clear that such a course could leave the plan to rationalise the Landesbanken exposed to political fortune, with state governments likely to give greater emphasis to local politics.

Strong demand for Tanzania $40m facility

By Stephen Fidler, Euromarkets Correspondent

TANZANIA HAS arranged for the third successive year a coffee pre-export finance facility to allow it to secure its crude oil imports.

Interest in the $40m facility, arranged by Bankers Trust, has grown among financial institutions; it was $10.5m oversubscribed this year. Eleven banks, two more than last year, joined the financing for Tanzania's National Bank of Commerce.

The country is negotiating with the International Monetary Fund over a structural adjustment programme expected to be in the region of $250m.

● Ford Motor Credit has established a Y25m Eurocommercial paper programme, arranged by Nikko Securities (Europe), with Yamaichi International also acting as a dealer.

● Midland Montagu arranged a £100m sterling commercial paper programme for BPB Industries, with Barclays de Zoete Wedd also a dealer.

Treasuries up on hope of Japanese refunding demand

By Janet Bush in New York and Rachel Johnson in London

US TREASURY bonds moved a little higher yesterday amid hopes of healthy Japanese demand at the quarterly refunding and in reaction to a soft Fed funds rate.

At midsession, the Treasury's benchmark long bond

GOVERNMENT BONDS

was quoted ¾ point higher for a yield of 7.93 per cent.

The Treasury said yesterday that it had been forced to postpone this week's slate of auctions because Congress had still not passed legislation to raise the debt ceiling. A $10bn sale of three-year notes was originally scheduled yesterday with $10bn of 10-year notes due today and $10 in 30-year bonds and $10bn in cash management bills set for tomorrow.

There is some optimism that, when the refunding occurs, it will go well with reports of significant Japanese interest at current yields.

The bond market also appeared to move a little higher having been rather soft in overseas trading in response to a soft Fed funds rate of 8⅝ per cent to 8½ per cent. This was slightly lower than bond market analysts had anticipated and encouraged some hope that the Fed might have initiated another easing move.

However, some bond market economists attributed the lower Fed funds rate to a willingness by the US Federal Reserve to tolerate a slightly lower level amid the uncertainty about the refunding.

■ THE GERMAN government bond market continued its gradual decline of the past fortnight, losing another 20 pfennigs in both cash and futures markets yesterday.

At the fixings, however, bonds were marked up 5 to 10 pfennigs, but traders warned this was not a sign that the recent decline had been arrested. In fact, the market is still struggling to digest the new DM4bn bund, launched at a time when buyers were in short supply.

The only piece of market-sensitive data to be released during the day was the announcement that the Government was likely to create a DM8bn fund to provide houses for the East German refugees. This was not taken as positive news for bonds since it was viewed as draining DM2bn of liquidity a year from the market for the next four years.

The January 1999 7.30 per cent bund advanced 10 pfennigs after the fixings. It fell ⅛ point on Friday.

Trading was "depressingly thin," while the announcement that the rate of today's repurchase agreement would be the same as last week's helped stabilise prices at the shorter end.

■ THE UK government bond market was also dull yesterday, although perkier in early trading after overnight buying interest in Japan stimulated the market to open ⅛ point up.

When the German market started to weaken, the initial firm sentiment evaporated. Even sterling's firm performance on the foreign exchanges failed to hold gilts to their early gains.

The benchmark 11¾ 2003/07 opened at 110.23, rose to 110.27, then fell back to close unchanged from Monday.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
UK GILTS		13.500	9/92	104-16	+4/32	11.60	11.46	11.76
		9.750	1/98	94-29	+1/32	10.69	10.60	10.60
		9.000	10/08	93-12	-2/32	9.77	9.67	9.62
US TREASURY *		8.000	8/99	100-05	+1/32	7.97	7.88	8.04
		8.125	8/19	101-29	+1/32	7.96	7.89	8.02
JAPAN	No 111	4.600	6/98	94.2689	-0.108	5.50	5.43	5.32
	No 2	5.700	3/07	101.9660	-0.548	5.48	5.31	5.13
GERMANY		6.750	6/99	95.2000	-	7.31	7.11	6.98
FRANCE	BTAN	8.000	7/94	93.6022	+0.211	9.74	9.42	9.10
	OAT	8.125	5/99	93.7800	+0.360	9.11	8.93	8.73
CANADA *		9.500	10/99	99.8750	-	9.52	9.47	9.52
NETHERLANDS		7.250	7/99	96.7700	-0.070	7.73	7.51	7.37
AUSTRALIA		12.000	7/99	92.3789	-0.048	13.42	13.55	13.65

London closing, *denotes New York morning session. Yields: Local market standard. Prices: US, UK in 32nds., others in decimal

Technical Data/ATLAS Price Sources

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

These indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

	EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Tue Nov 7 1989 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (25%))	Est. P/E Ratio (Net)	xd adj. 1989 to date	Mon Nov 6 Index No.	Fri Nov 3 Index No.	Thu Nov 2 Index No.	Year ago (approx) Index No.
1	CAPITAL GOODS (207)	877.04	+0.5	12.68	4.83	9.65	27.91	873.88	872.13	864.89	824.31
2	Building Materials (29)	1038.14	....	15.18	5.35	8.23	35.83	1037.89	1036.53	1027.51	1046.53
3	Contracting, Construction (37)	1380.22	-0.2	17.83	5.60	7.32	55.10	1383.00	1381.43	1366.37	1595.96
4	Electricals (10)	2586.79	+0.2	11.01	4.96	11.42	68.90	2582.56	2491.73	2473.20	2385.35
5	Electronics (30)	1952.50	+1.0	9.44	3.76	13.65	50.67	1933.53	1933.91	1913.76	1760.20
6	Mechanical Engineering (53)	461.10	+0.4	12.15	4.88	10.01	14.68	459.25	460.25	455.78	433.30
8	Metals and Metal Forming (6)	459.09	+0.7	22.39	6.52	4.92	16.13	455.68	458.05	454.16	516.28
9	Motors (18)	361.98	-0.3	10.97	4.79	10.69	11.79	363.00	363.14	361.92	286.42
10	Other Industrial Materials (24)	1640.90	+1.0	10.07	4.56	11.72	51.93	1624.60	1613.32	1604.41	1381.02
21	CONSUMER GROUP (184)	1240.22	+0.1	8.89	3.50	14.15	27.90	1239.32	1242.30	1233.83	1077.96
22	Brewers and Distillers (23)	1382.97	+0.3	9.46	3.56	13.23	28.11	1379.44	1383.56	1380.35	1151.74
25	Food Manufacturing (20)	1091.76	+0.2	9.41	3.93	13.42	25.28	1089.43	1096.84	1095.73	975.05
26	Food Retailing (14)	2320.95	+0.8	8.97	3.02	14.74	44.25	2302.37	2305.20	2280.72	1863.86
27	Health and Household (14)	2476.69	-0.3	6.33	1.93	18.83	40.54	2483.85	2495.90	2471.13	1874.37
29	Leisure (34)	1554.74	+0.7	8.39	3.69	14.69	37.32	1544.25	1539.97	1522.43	1433.24
31	Packaging & Paper (15)	527.60	-0.8	11.38	5.63	10.96	16.17	531.62	531.22	526.55	557.64
32	Publishing & Printing (18)	3570.80	....	9.02	4.85	14.21	107.68	3572.66	3578.92	3556.73	3489.71
34	Stores (32)	766.88	-0.4	11.13	4.81	11.71	21.68	770.15	769.91	762.85	741.19
35	Textiles (14)	509.01	-0.4	11.23	5.78	10.30	15.85	510.98	509.97	511.79	515.23
40	OTHER GROUPS (94)	1096.05	+0.3	10.71	4.68	11.33	27.58	1092.57	1093.15	1084.98	915.04
41	Agencies (17)	1485.94	-0.3	7.10	2.43	17.37	25.29	1490.31	1493.63	1493.18	1093.55
42	Chemicals (22)	1173.74	+0.6	12.78	5.33	9.22	43.50	1166.70	1170.30	1166.78	1053.00
43	Conglomerates (14)	1585.92	+1.3	10.78	5.37	10.95	36.04	1564.89	1561.27	1546.56	1264.13
45	Transport (13)	2139.19	-0.3	10.44	4.38	12.25	56.50	2145.76	2119.34	2115.99	1957.46
47	Telephone Networks (2)	1054.53	+0.4	11.50	4.68	11.34	22.38	1050.50	1054.07	1044.56	987.44
48	Miscellaneous (26)	1803.28	-0.3	9.62	4.56	11.73	44.84	1808.99	1815.99	1791.42	1245.69
49	INDUSTRIAL GROUP (485)	1119.60	+0.2	10.36	4.21	11.90	28.73	1116.93	1118.03	1109.70	982.55
51	Oil & Gas (15)	2127.22	-0.1	10.18	5.33	12.98	87.50	2128.77	2134.02	2124.82	1751.77
59	500 SHARE INDEX (500)	1204.38	+0.2	10.34	4.36	12.04	33.53	1202.03	1203.46	1195.09	1048.09
61	FINANCIAL GROUP (121)	756.85	+0.9	-	5.51	-	28.35	750.41	748.11	739.00	693.14
62	Banks (9)	756.00	+0.8	22.82	6.61	5.76	35.17	750.17	753.28	734.16	660.06
65	Insurance (Life) (8)	1253.43	+0.4	-	5.06	-	47.56	1248.16	1258.45	1239.76	974.54
66	Insurance (Composite) (7)	643.14	+1.4	-	5.88	-	28.34	633.98	634.14	632.91	527.06
67	Insurance (Brokers) (7)	1071.81	+2.1	7.02	5.86	18.95	45.26	1049.60	1039.87	1026.36	951.31
68	Merchant Banks (11)	422.18	+0.2	-	4.80	-	9.70	421.41	399.72	396.77	351.69
69	Property (49)	1159.96	+0.7	7.73	3.54	16.34	22.74	1151.38	1143.16	1137.56	1255.22
70	Other Financial (30)	321.18	+1.0	12.35	6.66	10.55	13.34	318.12	316.32	316.48	369.88
71	Investment Trusts (69)	1190.83	....	-	2.93	-	21.61	1191.53	1190.22	1180.48	943.09
81	Mining Finance (1)	687.75	+1.5	10.87	3.92	10.34	22.25	677.48	676.20	662.09	575.37
91	Overseas Traders (7)	1387.68	+0.8	10.00	5.83	11.47	49.80	1376.23	1363.25	1342.10	1447.66
99	ALL-SHARE INDEX (698)	1097.59	+0.3	-	4.50	-	31.96	1094.19	1094.54	1085.73	961.04
		Index No.	Day's Change	Day's High (a)	Day's Low (b)	Nov 6	Nov 3	Nov 2	Nov 1	Oct 31	Year ago
	FT-SE 100 SHARE INDEX‡	2178.2	+8.6	2178.2	2161.7	2169.6	2173.1	2154.1	2160.1	2142.6	1840.6

FIXED INTEREST

	PRICE INDICES	Tue Nov 7	Day's change %	Mon Nov 6	xd adj. today	xd adj. 1989 to date
	British Government					
1	Up to 5 years	116.64	+0.09	116.54	-	10.42
2	5-15 years	129.91	+0.07	129.82	-	11.60
3	Over 15 years	138.52	+0.05	138.45	-	12.71
4	Irredeemables	156.43	+0.16	156.18	-	13.42
5	All stocks	128.01	+0.08	127.91	-	11.49
	Index-Linked					
6	Up to 5 years	139.14	....	139.14	-	2.79
7	Over 5 years	137.99	-0.05	138.06	-	3.21
8	All stocks	137.96	-0.05	138.03	-	3.15
9	Debentures & Loans	107.49	+0.21	107.26	-	9.19
10	Preference	86.37	....	86.37	-	5.26

	AVERAGE GROSS REDEMPTION YIELDS		Tue Nov 7	Mon Nov 6	Year ago (approx.)
	British Government				
1	Low	5 years	9.96	9.96	9.75
2	Coupons	15 years	9.72	9.72	9.24
3		25 years	9.63	9.64	8.91
4	Medium	5 years	11.09	11.11	10.14
5	Coupons	15 years	10.09	10.09	9.47
6		25 years	9.75	9.75	9.14
7	High	5 years	11.21	11.23	10.28
8	Coupons	15 years	10.30	10.30	9.58
9		25 years	9.89	9.89	9.20
10	Irredeemables†		9.71	9.72	8.85
	Index-Linked				
11	Inflation rate 5%	5yrs.	3.69	3.68	2.72
12	Inflation rate 5%	Over 5 yrs.	3.64	3.63	3.53
13	Inflation rate 10%	5 yrs.	2.87	2.86	1.62
14	Inflation rate 10%	Over 5 yrs.	3.47	3.47	3.37
15	Debs &	5 years	13.79	13.82	11.72
16	Loans	15 years	12.37	12.44	11.02
17		25 years	11.91	11.94	10.69
18	Preference†		10.70	10.70	10.04

‡Opening index 2162.6; 10 am 2165.9; 11 am 2163.4; Noon 2164.8; 1 pm 2166.5; 2 pm 2167.1; 3 pm 2168.5; 3.30 pm 2173.0; 4 pm 2176.9 (a) 5.00pm (b) 9.18am † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL, price 15p, by post 34p. Funding 5¼% 1987-1991 has been excluded from the calculation of low coupon gilt yields since 20/10/1989. CONSTITUENT CHANGES: Neill (James) (6) has been deleted and replaced by Hays (43).

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	68	13	22
Corporations, Dominion and Foreign Bonds	18	1	22
Industrials	296	408	897
Financial and Properties	140	150	383
Oils	10	22	62
Plantations	1	1	8
Mines	54	20	97
Others	26	88	145
Totals	613	703	1,636

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1989 High	1989 Low	Stock	Closing Price p	+ or -
¤§*Ir96	Nil	6/12	39pm	1¼pm	‡Atlantic Res. Units	25pm	-2
30	Nil	-	7pm	3pm	‡CCS Group	3pm	-1
Ir240	Nil	4/12	48pm	33pm	‡Flogas Ir10p	38pm	
72	Nil	7/12	2½pm	¼pm	Mount Charlotte Invs. 10p	¼pm	
250	Nil	-	39pm	35pm	Pslon	39pm	
105	Nil	4/12	1¼pm	1¼pm	‡Rhe Group 10p	1¼pm	
23	Nil	13/12	73pm	54pm	‡Ross Cons Elects. 10p	73pm	+1
25	Nil	-	16pm	4pm	‡WB Industries	9pm	+5
Ir80	Nil	8/12	8pm	3pm	‡Xtra-Vision Ir5p	4pm	

a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. s Dividend and yield exclude special payment. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1990-91. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989/90. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ¥ Issued by tender. ‡ Offered to holders of ordinary shares as a "rights". † Introduction. § Placing price. †† Reintroduction. ¶ Issued in connection with reorganisation merger or takeover. ‡ Allotment price. ‡ Unlisted securities market. ‡ Official London listing. □ Including warrants entitlement. ° Third Market. ∅ Price at suspension. ** Units comprising 12 ord & 5 warrants attached.

TRADITIONAL OPTIONS

● First Dealings Nov 6
● Last Dealings Nov 17
● Last Declarations Feb 8
● For settlement Feb 19

For rate indications see end of London Share Service

Calls in: Conroy Pet., Brit. & Commonwealth, Rolls-Royce, Brit. Gas, Electronic Machine, Hanson Warrants, Owners Abroad. Puts in: Rolls-Royce, Brit. Gas, Kingfisher. Call & Put: Euro Disneyland.

LONDON TRADED OPTIONS

ACTIVITY IN the London Traded Options Market picked up modestly yesterday as attention focused on leading stock options. Turnover in FT-SE 100 index options was subdued, with the market recording its quietest day in a week.

Hanson, which has gold mining interests, was the busiest contract as its underlying stock rose 5½ to 218p, reacting positively to a $5 rise in the price of gold. Dealers noted three large spread trades, believed to be on behalf of a large institutional holder of Hanson shares. They said market-makers had rolled over call positions from November into February. These trades were divided between two orders of 1,000 lots each and one of 400 lots.

Hanson turned over 4,889 contracts, of which 4,272 were calls and 617 puts. The busiest series were the February 220 calls, which traded 1,508 lots.

Storehouse was another busy stock option ahead of its interim results on Thursday. The market expects Storehouse to announce a loss and yesterday its underlying shares fell 6p to 106p. A market-maker was again bidding for January calls, though yesterday it was the 110 series rather than the 120 series, which a different market-maker tried to buy on Monday. "There weren't any large sellers of Storehouse. With the results coming up on Thursday the suspicion is: do they know something we don't?" one market-maker said.

Turnover in Storehouse yesterday amounted to 1,592 contracts, of which 1,230 were calls and 362 puts. The January 120 call was the busiest series, trading 500 lots.

The activity in the insurance sector prompted interest in Commercial Union options. Reports of a proposed rise in insurance rates in the US generated the activity. Commercial Union traded 1,195 contracts. This was divided between 655 calls and 540 puts. The January 460 call was the busiest series, trading 630 lots.

Total turnover on the LTOM amounted to 32,662 contracts – 19,735 calls and 12,927 puts.

[illegible]

UK COMPANY NEWS

US operations inflate turnover and cut earnings as costs outstrip estimates

Tie Rack disappoints with £0.27m loss

By Jane Fuller

TIE RACK, the retailer which has tied up a lot of money in expansion, particularly in the US, incurred a worse-than-expected pre-tax loss of £272,000 for the 28 weeks to August 13.

That compared with a profit of £374,000 in the first half of last year. The loss per share was 0.48p, against earnings of 0.69p.

Turnover, on the other hand, raced ahead by 41 per cent to £21.5m (£15.24m). The number of shops increased by 31 to 242, of which 132 are in the UK.

Mr Roy Bishko, chairman and chief executive, warned that the full-year profit would be "significantly less" than last year's £3.12m.

"Expectations have been reasonably high and we are not very comfortable with that."

He said the US operation, involving 41 shops, had both inflated the turnover figure and cut earnings. As it was new terrain, the shops were all company-run, instead of the preferred franchise arrangement.

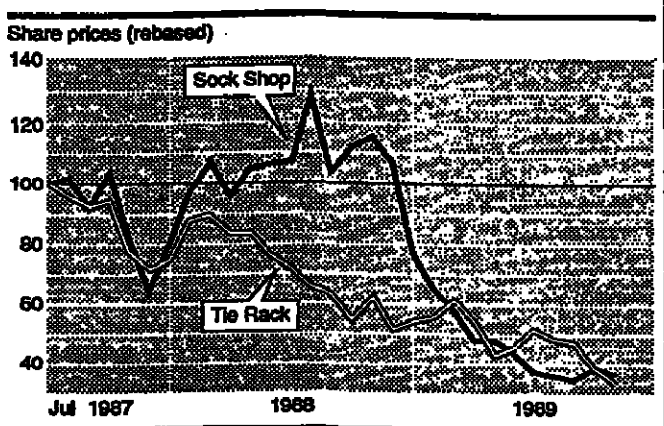
The problem was that start-up costs had outstripped expectations, while sales had lagged behind. Mr Bishko said it was taking longer than he had hoped to build up American awareness of Tie Rack.

Paul Murphy

Roy Bishko: uncomfortable with high expectations

In the UK, he estimated that £400,000 of sales had been lost because of the London transport strikes. There were six days on which both British Rail and London Underground were hit and a further seven days of tube stoppages, over a four-month period.

Meanwhile, the hot weather had stifled shopping generally and the tie and scarf market in particular.



Although Tie Rack was not immune from the downturn in UK consumer spending, he believed the comparatively low price tag on the in-house designed products would restore sales to a satisfactory level in the peak trading period up to Christmas.

He stressed that the company was in a development phase, spending money ahead of expansion on such things as warehousing and shop fitting. The impact was harder because half the shops were company run, whereas the target was to have 80 per cent franchised.

Gearing had risen to a peak, which he would not disclose. At the end of January, it was less than 25 per cent and the aim was to get it back down to 50 per cent by the end of the current year.

The interim dividend is unchanged at 0.465p.

The shares fell 7p yesterday to 47p. The company was floated at 145p in June 1987.

See Lex

Racal approached over Orbitel stake

By Hugo Dixon

ERICSSON, the Swedish telecoms manufacturer, and Matra, the French electronics group, have both approached Racal Telecom with a view to acquiring a stake in Orbitel, the mobile communications group's manufacturing offshoot.

Orbitel was set up as a joint venture between Racal Telecom and Plessey, the UK electronics company. Its main business is to supply infrastructure for Racal Telecom's own network, but it is hoping to expand this business across Europe when the pan-European cellular phone system is launched in 1991.

Following the takeover of Plessey earlier this year by the General Electric Company of the UK and Siemens of West Germany, Racal Telecom has an option to buy out Plessey's 50 per cent stake. The two sides are now in negotiations which are thought to value the whole of Orbitel at up to £100m.

Mr Gerry Whent, Racal Telecom's chief executive, said the company would wait until it had finished negotiations with GEC and Siemens before it looked for another partner for Orbitel. He emphasised that the choice of partner would be determined by whether it could further Orbitel's European ambitions rather than by how much it was prepared to pay.

However, he confirmed that both Ericsson and Matra had approached Racal Telecom. The advantage of selling a stake to either company is that both are already collaborating with Orbitel in developing equipment for the pan-European market.

Mr Whent also expressed interest in selling stakes to other European mobile communications operators. One advantage of such a deal would be that the operators would be expected to purchase some of their equipment from Orbitel, so increasing its market reach.

If Racal Telecom took such an approach, the most likely partner would be Cofira, one of France's two mobile phone operators in which Racal already has a minority stake. If D-Tel, another consortium of which Racal is a member, wins a licence to offer mobile services in West Germany, that company would also be a possible partner.

However, Mr Whent said these were just ideas and that no discussions had yet taken place with either Cofira or D-Tel.

Parkland Textile expansion

By Alice Rawsthorn

PARKLAND TEXTILE (Holdings), the Bradford-based wool group, increased pre-tax profits by 8 per cent to £1.48m in the six months to September 1 in spite of the difficult climate in the textile industry.

Mr John Hanson, chief executive, said that trading had "not been easy" during the interim period, but Parkland had been able to counter the weakness of the UK market by increasing its exports. Yesterday, the ordinary shares were static at 263p while the A shares rose 2p to 160p.

Parkland has been restructuring its interests since the mid-1980s by re-equipping its plants and moving into value-added areas of activity. It has also broadened the base of its business by diversifying into new sectors.

It recently announced details of a joint venture with Guilford Mills, one of the largest US textile groups, to move into the automotive fabrics market.

Group turnover was virtually static at £29.51m (£29.33m) during the first half. Tax took £487,000 (£481,000). Earnings per share rose to 13.3p (12.1p) and the interim dividend is raised to 2.2p (2p).

Mr Hanson said the group had experienced pressure on margins in the UK because of increased competition from imports and sluggish consumer spending. He expected conditions to continue to be difficult for at least six months, but that the fall in the value of the pound would then alleviate the pressure from imports.

Parkland has concentrated on increasing its sales to overseas markets, chiefly to Europe and Japan. Exports accounted for about 18 per cent of turnover (excluding clothing) in the first half. Mr Hanson expects that proportion to rise above 20 per cent within a year.

The group is investing £3m in capital expenditure this year. It expects to see further recovery from its yarn dyeing interests because of the boost to output from the automotive fabrics joint venture with Guilford.

FIH considers sale of Berisfords ribbons side

FERGUSON Industrial Holdings is considering selling the ribbons business of its Berisfords subsidiary. The move is part of Ferguson's strategy of concentrating on its printing, packaging, publishing and plastics interests.

The ribbons business became part of FIH in March 1989 following the acquisition of Berisfords Group, which then valued the whole company at £9m.

In the six months to end-August 1989 the ribbons business made taxable profits of £387,000. In the same period FIH reported pre-tax profits of £6.29m on turnover of £73.36m.

The shares were unchanged yesterday at 241p.

COMPANY NEWS IN BRIEF

BARKER (CHARLES) has changed its name to BNB Resources. The sale of the London-based public relations businesses to Corporate Communications for £9m has been completed.

ELAN CORPORATION: Interim results showed net profits of I£1.33m (£1.21m), against a deficit of I£258,000 in the corresponding period of the previous year. Earnings per share worked through at 5p (2p loss).

F AND C Eurotrust: Recent rights issue accepted in respect of 3.41m shares, representing approximately 56 per cent of offer.

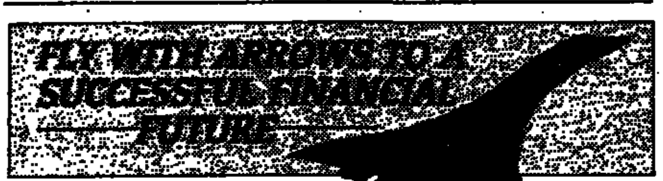
GERMAN SMALLER Co's Investment Trust reported net asset value per share up from 183.9p to 206p, diluted, and from 140.3p to 225.8p undiluted, at September 30. Total revenue for half year to end-September was £402,892 (£400,101) and net revenue per ordinary share 1.55p (1.54p).

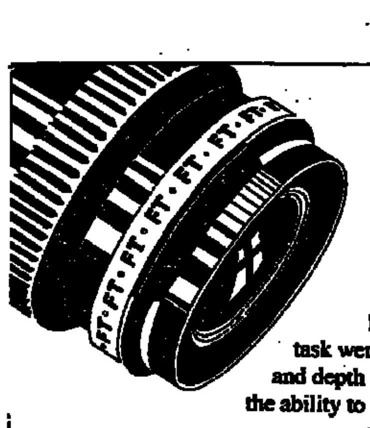
GLOBAL GROUP has sold Barfrestone Cottage Delicatessen for £75,450 cash. Proceeds to be applied to developing other group businesses.

HEITON HOLDINGS is buying the DIY and building supplies interests of Robert McCowen and Sons from R and H Hall for I£950,000 (£864,000), subject to adjustment, in cash. McCowen, based in Tralee, is also a fuel merchant.

LAIRD GROUP has acquired TLV (Manufacturing), a maker of hinges, for £1.13m cash. TLV will form part of Laird's security systems division.

PENNINE OPTICAL: Valid acceptances for open offer amounted to 840,356 shares (41.6 per cent). Balance taken up by underwriters.





UK COMPANY NEWS

Far Eastern group to buy lion's share of ailing textile side

£38m disposal for Polly Peck

By Jane Fuller

POLLY PECK International, the electronics and fresh produce group, has arranged the sale of the lion's share of its textile division for more than £38m.

It is selling its 74 per cent stake in Hong Kong-based Polly Peck Far East to Brave Dragon, a new company formed by Sun Hung Kai Properties and Wing Tai Exporters.

Polly Peck said it intended to dispose of its textile division on September 7, the same date as it announced its purchase of the US Del Monte Corporation's fresh fruit operations for $875m (£554m) with the help of a £283m rights issue.

On the same day Polly Peck also released its interim results, which showed that the textile division had contributed a mere £200,000 to the pre-tax profit of £64.4m.

While the food and electronics divisions had forged ahead to £50.7m and £13.5m respectively, the textile profit had fallen to a tenth of the previous first-half figure.

Since then the company has again hit the headlines by becoming only the third foreign organisation to take control of a quoted Japanese company, through its purchase of a 51 per cent stake in Sansui, the loss-making audio equipment business.

On the sale of the textile activities, Mr Tim Wood, Polly Peck's director of investor relations, said the original plan was to buy out the minority stake in PPFE and dispose of the textile division as a whole.

Then along came Brave Dragon with a proposal to buy the 74 per cent interest in PPFE for HK$ 471m (£38.3m), including a £17m special dividend.

However, there were three bits that it did not want: majority stakes in Santana, a US garment distributor, and in Agoil Industria E Confeccao, a Portuguese knitwear company; and a minority stake in Shell Electric Mfg, a Hong Kong electric appliances maker.

So part of the deal is that Polly Peck buys the shares in these three companies for £10.8m, leaving it with net proceeds of £27.5m. The proposal has to go before an extraordinary general meeting of PPFE.

Mr Wood said that if the deal fell through, Polly Peck would revert to plan A – to buy out the minority stake in PPFE.

The sale of the Santana and Agoil stakes, plus two other small companies, would complete the disposal of the textile division. Also for sale were the Del Monte ships, valued at $303m. Once both sets of disposals were accomplished, Polly Peck's gearing would be about 105 per cent, said Mr Wood. By the end of 1990 it should fall below 75 per cent, taking account of brand value.

Henderson Admin recovers to £10.7m

By Andrew Hill

HENDERSON Administration Group managed to put a brake on overheads and increase profits to £10.7m before tax in the six months to September 30.

The fund management group has recovered since the first half of last year when profits suffered from the dearth of unit trust activity following the 1987 stock market crash and dropped to £4.38m. That compared with £15.2m in the first half of 1987-88.

Henderson said overheads had risen less than 1 per cent in the first half of the year.

However, funds under management were only marginally higher at £8.88bn (£7.95bn) by the end of September, as some unit trust clients who had recouped their losses from the 1987 crash decided to sell out.

Henderson also revealed that it had lost a number of pension fund clients. The overall figure, which includes new clients won by the fund manager, dropped from 246 to 236.

Mr Ben Wrey, Henderson's deputy chairman, said the fall reflected two important changes in the pension fund industry: a switch from balanced funds, under single managers, to more specialised funds, and a move towards funds which track the large stock market indices. Henderson has no indexed funds.

Earnings rose from 12.4p to 32.86p before a transfer from Henderson's initial charges equalisation reserve (which irons out fluctuations in unit trust profits). An interim dividend of 10p, against 7p, is declared.

"When you get into the kind of air pockets that the markets have, it does hit investor sentiment and naturally people are very cautious. They won't be buyers of units until the dust settles – but that doesn't mean we can't make money," said Mr Wrey yesterday.

Revenue increased to £22.2m (£17.9m) in the first half, generating operating profits of £5.44m (£1.76m). Interest receivable rose to £4.02m (£2.08m) and investment income from £792,000 to £1.7m. Some £8.55m (£3.92m) was available for distribution after transfer.

● COMMENT

Analysts' admiration for the way in which Henderson controlled costs in the first half was tempered yesterday by concern that funds under management showed only sluggish growth while the market was performing reasonably well. Since September the climate for investors has looked slightly less certain and Henderson's shares, the fortunes of which are inextricably entwined with the stock market, have weakened dramatically. Yesterday they found the strength to climb 25p to 690p, and now stand on a prospective p/e of about 10 (before transfer) assuming pre-tax profits of £22m for the full year. The interesting element of bid speculation surrounding the 14 per cent stake still held by USF&G Corporation, a US insurance group, seems to have disappeared, and the shares would look reasonably attractive were the markets to perk up.

Arlen warns of sharp downturn

By Andrew Hill

ARLEN, the light fittings and electrical accessories group, yesterday warned that its interim results would be significantly lower than in the equivalent period.

The company said there had been a sharp downturn in trading in the six months to the end of September – an indication that the retailing and housebuilding downturn is beginning to affect manufacturers.

At the end of last month, Arlen announced a £6.12m cash and management injection. Mr Leslie Hancock, chairman, said then that Arlen would not match last year's profits of £797,000 before tax.

The latest statement was prompted by concern at the company that the market had not absorbed the implications of the earlier profits warning, but Arlen's shares rose 1p to 69p yesterday.

Arlen blamed the profits fall on destocking by its customers, which include high street retailers, DIY stores, white goods manufacturers and the television industry. The group has also borrowed more money to fund the development of new products.

Arlen has brought forward its results announcement to next Monday in order to clarify the situation for investors as soon as possible.

Magnet finance director departs

By Maggie Urry

MAGNET, the kitchen and joinery manufacturer and retailer which is in the middle of discussing a financial restructuring with its bankers, Bankers Trust, announced last night that Mr Albert King, finance director, "has left the employment of the group".

No explanation for Mr King's sudden departure was given. Analysts speculated that Mr King was being held responsible for the group's financial difficulties. They also suggested that the group's auditors would be changed at the annual meeting.

A brief statement was issued shortly before the Stock Exchange company announcements system closed for the day. Mr Tom Duxbury, Magnet's chairman and chief executive, and the rest of the Magnet directors were unavailable for comment.

The group arranged a £629m management buy-out in the summer, but rapidly met trading difficulties. It admitted that it was incapable of meeting agreements with its bankers on October 24.

Yesterday's statement said that the "positive discussions" with the bankers were "expected to continue over the next few weeks."

The group's shares, which were suspended when Magnet announced that talks with bankers were taking place, will remain frozen "until the financial restructuring has been satisfactorily completed," the company stated.

Oceana Dev falls 14% to £220,000

Available profits of the Oceana Development Investment Trust fell by 14 per cent to £219,770 for the half-year ended September 30.

Bank interest earned rose to £248,124 (£74,186) but interest charges this time accounted for £230,606 (nil). Furthermore, administration expenses rose by some £110,000 and tax accounted for about £50,000. Net asset value per 25p share was little changed at 251.7p (250.3p). Earnings amounted to 4.06p (4.87p).

Pembridge nears 54% of DRG but institutions still drag their feet over minority situation

By Clare Pearson

Mr ROLAND FRANKLIN's Pembridge Investments picked up a few more shares in DRG yesterday as institutions pondered whether to take the highly unusual step of resisting the bidder, which now speaks for nearly 54 per cent of ordinary shares in the paper and packaging company.

The move was initially aired at a meeting on Monday orchestrated by DRG's financial advisers after Pembridge, a Bermuda-based vehicle, had achieved control.

One fund manager, who attended this meeting, said yesterday: " It is too early to tell whether the discussions will amount to anything, but there is certainly a chance of getting together to form a cohesive group."

At another institution, which has a small holding in DRG but which did not attend Monday's meeting, the view was less positive. "You'd have to be very brave to hang on like this, when you're obviously not dealing with a simpleton," a spokesman said.

At the crux of institutions' deliberations is the question of whether forming a group of minority shareholders, a move on which they would generally look askance, is in this case worthwhile due to the perceived weaknesses arising from the debt burden incurred by Pembridge in making the bid.

Investors' main hope in not accepting the offer appears to be to extract better terms from Pembridge, a Bermuda vehicle, than its current 590p in cash in six months' time. This is when it would become free to pay more for their shares than it offered during the bid.

The other option, that of holding on to the shares while Mr Franklin, a US-based financier, carries out the restructuring, would probably be less attractive, as a longer-term commitment.

Holders of at least 25 per cent of the shares would need to get together for the action to be effective. At this level, Pembridge's financial position would be less advantageous since it would have to distribute profits in DRG by way of a dividend.

Schroders, financial advisers to Pembridge, a Bermuda-based vehicle, said yesterday: "Obviously, Pembridge can cope financially with a minority shareholding, or we've wouldn't have structured the bid as we did."

Since Pembridge itself speaks for more than 30 per cent of the shares, under Takeover Panel rules the bid must go unconditional at above the 50 per cent level as soon as necessary paperwork on the shares is in order.

Today marks the first day on which shareholders can withdraw their acceptances. The offer remains open until 24th November.

Pembridge, which added a handful of shares to its holding yesterday, is expected to be declared unconditional in the next few days.

Pearl Group, which speaks for about 2.4 per cent of the company, and Prudential, with about 3.5 per cent, are thought to be among the keenest on turning down the 590p terms.

On Monday, Legal &General sold its 1.4 per cent stake to Pembridge. It said yesterday this was in line with usual action once a bidder controlled more than 50 per cent of the target.

See Lex

Limited status for Clyde Port

Clyde Port Authority, which operates ports along the Clyde, is to seek a change in its status from a statutory trust port to a limited company. It says it is the first trust port in Britain to make such a move, which will allow it to issue shares.

The authority says it is taking up the challenge issued by Mr Paul Channon, the former Transport Secretary, who in 1988 said he wished to see trust ports become more accountable.

The abolition of the dock labour scheme in July, which has brought new timber and pulp handling business to Greenock, had been a further spur to change. The authority intends to issue shares to Scottish financial institutions and to its employees.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
GEI Intl ....int	2.35	Jan 15	2.14	-	6.54
Henderson Admin ....int	10	Jan 10	7	-	30
Hughes (HT) § ....int	1.32†	Jan 8	1.1	-	2.48
Parkland Textile ....int	2.2	Jan 13	2	-	6.3
Tie Rack ....int	0.465	-	0.465	-	1.33

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. §§Unquoted stock. ¶Third market.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims- Anglo American Coal, Bimec Industries, Capital Gearing Trust, Fashion & General, Gieves, Hadleigh Industries, JS Pathology, Oxford Instruments, Rothschild (J), Sainsbury (J), South African Breweries, Warner Howard.

Finals- ASEA, Bellway, Bibby (J), Wilkinson Tax.

FUTURE DATES

Interims-

Land Securities	Nov. 15
Personal Assets Trust	Nov. 17
Rothmans International	Nov 23
Russell (Alexander)	Dec. 14
Vinten	Nov. 20

Finals-

Bennett & Fountain	Nov. 28
Burton	Nov. 16
Marshalls	Nov. 14

CONTRACTS & TENDERS

GOVERNMENT OF INDIA
AIR HEADQUARTERS : INDIAN AIR FORCE

TENDER NOTICE
FOR INSERTION ON 06 AND 08 NOV 89

1. On behalf of the President of India, Director of Puchase Air Headquarters IAF invites sealed tenders on prescribed forms from manufacturers, registered with respective Ministries of Defence/ on approved list of Indian Embassies abroad or of Air Headquarters, India for supply of the following stores :-

NATURE OF EQUIPMENT	TENDER NO.	TENDER OPENING DATE
Aviation Oils and greases	Air HQ/POL/8925123/FPW/PUR	28 Dec 89

Tender documents containing detailed list of requirements an dspecifications can be had from the office of the Director of Purchase, Air Headquarters, Vayu Bhawan, New Delhi - 110 011 (Telex 31-65622) (Tele : 3017664/3011754) on payment of £10/- per tender Demand Draft in favour of CDA(HQ), New Delhi at State Bank of India, New Delhi. However, messages through telex may be sent in advance and payment may follow. Sale of tender documents will close on 24 Nov 89. Tenders will be opended at 1100 hrs on the due date. Only manufacturers who can offer stores with adequate guarantee and suitable approved certification, may seek tender documents. Copy of documents of Ministry of Defence or other authority approving quality standards and authorising issue of inspection certificates for the range of stores offered is essential. Tenders will not be considered if they are received late of if documents as prescribed ar not enclosed.
CORRESPONDENCE/COMMUNICATION WILL BE DIRECT WITH THIS OFFICE IN INDIA AND NOT THROUGH ANY INDIAN AGENTS.

UK COMPANY NEWS

American Distributors launches £7m placing

By Nikki Tait

AMERICAN Distributors, the former Sapphire Petroleum exploration company which has now been turned into a US tobacco wholesaler, is raising just over £7m, before expenses, via a conditional placing for cash and offer to shareholders of 7.56m new shares.

The new shares are available at 93p each – a seven per cent discount to yesterday's price of 100p.

At the same time, the company has announced the acquisition of Alpert Bros, a Massachusetts-based distributor of tobacco and confectionery products, for \$4.3m (£2.72m) cash. Alpert made pre-tax profits of \$313,000 in 1988, and American Distributors said that it would expand the customer list in New England, allowing the new Mansfield warehouse to be used to full capacity.

The directors said that the purpose of the cash-raising exercise is partly to reduce debt following the latest acquisitions, but also to expand the company's capital base and allow it to utilise larger lines of bank funding.

The company's debt position fluctuates significantly, reaching peaks at end-June and end-December when stocks have to be funded in advance of the manufacturers' price increases. According to the group, this means that debt facilities of around \$100m will now be needed by the end of the year, if it is to take maximum advantage of prior stock-building.

Certain institutional shareholders have irrevocably undertaken to subscribe for the maximum pro rata allocation of new ordinary shares. Together, they will take 74 per cent of the issue, and receive a commission of 1.25 per cent on the shares they are taking up. Directors and employees are taking a further five per cent of the issue, but get no commission.

The remaining 1.54m new shares have been conditionally placed at 93p, but shareholders can claw back at the same price on the basis of seven new shares for every 29 held.

The slightly unusual arrangements are necessitated by the fact that the group has certain tax losses available in the US, as a result of its previous incarnation as an exploration company. However, in order to retain these, it is important that there is no substantial shift in the company's ownership. Hence the securing of irrevocable subscriptions from existing institutional investors.

GKN pays \$4m for US plant hire group

GKN, the engineering, industrial services and supplies group has extended its industrial service activities in North America by acquiring the plant hire business of A – 1 Lou's Rentals and its Rentaland subsidiary. The business, which operates in southern California from a nine branch network, has been purchased from Wreckair Holdings for \$4.3m (£2.5m).

A – 1 has a turnover of about \$5m and provides a complementary operation to Foothill Tool and Equipment Rental, acquired by GKN in May. Integration of the two companies will create a 19 branch equipment hire business south of Los Angeles serving mainly small builders, tradesmen and DIY customers.

Celtic Gold incurs deficit of I£76,000

Celtic Gold reported a pre-tax loss of I£75,823 (£68,993), compared with I£59,262, for the six months to June 30.

The company continued to make satisfactory progress with its exploration programmes, both directly and by way of joint venture agreements.

New £30m Tyndall trust to invest in Philippines

By Nikki Tait

THE WAVE of new investment trusts recently being launched on to the stockmarket is set to continue with the arrival of the First Philippine Investment Trust from the Tyndall group.

There is also talk of a new UK-based trust being launched by another fund management stable later this week.

The Tyndall fund is the first London-listed investment trust to invest in Philippines. The managers are aiming to raise up to £30m via a placing of 60m ordinary shares at 50p apiece.

With every five shares, there will be one free warrant giving the right to subscribe for a further ordinary share at 50p between 1992 and 1996. The trust carries a potential wind-up date in the first half of 1997.

The joint investment managers of the fund will be Tyndall and Anscor Capital and Investment Corporation, a Philippines-based investment house owned jointly by A Soriano Corporation, Bankers Trust and senior management.

Mr Andres Soriano, who chairs San Miguel, the country's largest manufacturing company but recently the subject of controversy, will be chairman of the trust. They will each be paid an annual management fee of 0.3 per cent of funds under management.

The fund will also employ a newly-formed Bermuda-based company called PI as an investment adviser. PI is owned 26 per cent by Tyndall, 26 per cent by Anscor, 20 per cent by Citicorp Scrimgeour Vickers (brokers to the trust), 10 per cent by Gerrard Vivian Gray (secondary distributors), and 5 per cent each by Merchant Navy Investment Management, Abbey Life and Edinburgh Fund Managers.

The three UK institutions are expected to subscribe for an aggregate £7.5m-worth of shares in the trust itself. PI gets an annual management fee of 1 per cent of funds under management, plus a possible performance bonus.

The managers said that, with the Philippine market now capitalised at about \$10bn, the fund's assets will normally be fully invested in equities, and that up to 25 per cent could go in unlisted situations.

The fund will, however, be initially restricted to B shares in the listed company; these tend to trade at a premium to the A shares, which are available to Filipino nationals. It said that it was exploring the possibility of obtaining approval to invest in A shares.

Dealings in the new trust are due to start on December 12.

UK COMPANY NEWS

Waste disposal provides impetus at HT Hughes

By Jane Fuller

HT HUGHES, the USM-quoted waste disposal and demolition company, increased pre-tax profits by 31 per cent to £1.4m in the six months to August 31 1989.

Mr Bob Merrick, chairman, said waste disposal accounted for 75 per cent of the profit, but only 35 per cent of the £10.06m (£7.99m) turnover.

The disparity would be narrowed by last week's sale to management of the HTH commercial vehicle dealership at Wokingham – a business which had contributed £3m to first-half sales but a mere £40,000 to profits.

Mr Graham Papworth, finance director, said this meant that turnover for the full year would be less than last year's £17.21m, while profit would continue to rise.

The company is increasingly concentrating on waste disposal.

It has invested in sites in the south, notably in Hampshire and near Heathrow, and, as Mr Merrick put it, "the only problem we could have is if people stopped producing waste."

Bob Merrick: demolition side vulnerable to recession.

The question marks over profitability concern the 25 per cent which is vulnerable to recession, particularly in construction.

Mr Merrick said the demolition division had felt the strongest effect so far.

In all, there might be a 5 or 10 per cent downturn in the non-waste disposal activities, the worst of the difficulties being weathered in the traditionally slower second half.

There were no further plans to shed businesses. He explained that the remaining activities were complementary; for example, the company could demolish a building and use its own lorries to transport the rubble to one of its landfill sites.

Expansion plans were focused on waste disposal where Mr Merrick hoped to acquire two more landfill sites or waste disposal businesses.

With gearing at 47 per cent and a self-imposed limit of 50 per cent for anything other than the short term, he said it might be necessary to have another rights issue.

The share price slipped 5p to 123p. Because of January's 1-for-3 issue, which raised nearly £7m, earnings per share were comparatively flat at 3.7p (3.5p). The interim dividend is 1.25p (1.1p).

GEI hits out over interest rates

THE PRESENT level of interest rates has been likened to those available in a pawn shop by the head of one of the country's leading specialist engineers.

Mr Thomas Kenny, colourful chairman of GEI International, said the current rate of 15 per cent was a level "more applicable to a three ball shop."

He added: "How slowing down the UK manufacturing industry is good for the country needs explaining."

Mr Kenny made his comments as the same time as GEI's interim results revealed a 17 per cent rise from £2.52m to £2.95m in pre-tax profits for the six months to the end of September.

The "inexorable progress" of the packaging machinery division and considerably improved profits in engineering products, where losses at Allspeeds had been contained, were behind the rise.

Mr Kenny said that profit margins had improved and profits in the special steels division had been maintained.

However a softening of orders in the UK had been noticed which "of course followed from the bank rate of 15 per cent".

He added that as a counter to that, exports were splendid with the company's biggest order for packaging machinery having been received from the US in recent weeks.

Turnover was lower at £33.67m, against £36.23m, resulting from the sale of Midland Bright Drawn Steel.

After tax of £1.13m (£981,000) earnings per share were 4.97p (4.22p).

The interim dividend is raised from 2.14p to 2.35p in the expectation, Mr Kenny said, of the company's profit projection being met. The chairman said when announcing last year's results that this year would see an increase on the profits of £6.55m.

British Inv debenture stock issue

British Investment Trust, a £500m trust 85 per cent-owned by the British Coal pension funds, is gearing up via the issue of £75m-worth of debenture stock.

The 11.125 per cent secured debenture 2012 has been subscribed by Robert Fleming, and the managers said that it is being offered to investors at a margin of 1.5 per cent over the gross redemption yield on 9 per cent Treasury stock 2008.

The trust has no gearing at present, and its managers said they suspected that some other trusts might take similar steps given present interest rates.

BAT appoints Credit Lyonnais as main adviser in France

BAT Industries, the tobacco-based conglomerate which has been under threat from Sir James Goldsmith's Hoylake consortium, is now employing Credit Lyonnais as its main financial adviser in France.

BAT formerly used Compagnie Financiere de Paribas.

The decision, taken some time ago, stemmed from the involvement of Paribas as a backer of the Hoylake consortium.

The French group is also involved in the potential funding for Axa-Midi Assurances, the French-based insurance company which plans to buy BAT's Farmers Group subsidiary if Hoylake makes a successful bid for the UK conglomerate.

Paribas acted as BAT's senior adviser when the UK group listed its shares in Paris some years ago, with Credit Lyonnais being the junior adviser.

ADVERTISEMENT

RADAR

The Royal Association for Disability and Rehabilitation

Wednesday 8 November 1989 • 'Men of the Year' Awards Souvenir

The Royal Association for Disability and Rehabilitation (RADAR) was formed twelve years ago by an amalgamation of two bodies, both of which had similar beliefs; that disabled people should not be second-class citizens and should have equal rights in society to their peers. What have been our achievements over the last twelve years, and what have we done against a depressing economic back-cloth with perpetual demands for retrenchment and saving, rather than the expansion and increase in expenditure which is necessary?

The Association's main aim has been to ensure that disabled people were not forgotten and that they had their fair share and their rightful place in society.

Many differing areas make up our life style; we need housing, education, employment, transport, medical care and a host of other services. All of these are provided and governed by regulation and legislation and amended or changed to meet differing circumstances. One of our tasks has been to ensure that disabled people were considered in all these areas; that their education was the same as anyone else, that they were not separate in their education and that education was not regarded as special. Disabled children needed as complete an education as any other child, for education and training are the keys to employment and the ability to lead an independent life.

Above all it has been necessary to ensure that everything is done to minimise the disability and emphasise a person's ability. There are many barriers to disabled people. There are the obvious environmental barriers, steps for people with mobility problems, hazards which blind people are unable to see, a lack of communication for people with hearing difficulties. These obstacles affect education and training, they can prevent the development of a social life and those friendships and outings which are all part of growing up. They can mean that you are out of the mainstream of life. Attitudinal barriers also present problems which need to be attacked. The state of disabled people derives from cultures and attitudes, often from religions and philosophical beliefs, and throughout the world much needs to be done to see that these misconceptions are broken down.

RADAR's staff of fifty work to break down all kinds of barriers and remove pre-conceived ideas. They point out that in everyone there is ability, but often a minimum of disability masks an incredible ability and disability is often increased by external factors. Society also decides on disability and nominates certain conditions to be disabling. Those of us who wear glasses are not considered disabled. Yet without these aids we are more handicapped than many whom we classify as disabled people.

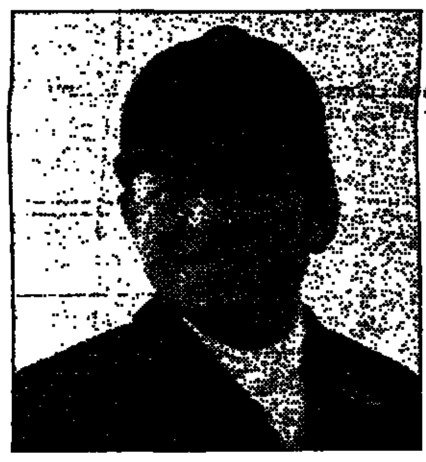
There is a negative outlook which creates disabled people. RADAR's view is that we think positively. The ability is there to be recognised and maximised. In that way disabled people will be able to take their rightful place in society and play a full part in it.

THE 'MEN OF THE YEAR'

RADAR's principal fundraising activities are largely centred around the 'Men of the Year' tradition.

Each year some 12-14 men receive an Award for outstanding courage and achievement in the previous 12-18 months. The men are selected from a large number of nominations sent to RADAR throughout the year. Once the Selection Committee has reached its decision, the 'Men' are invited to attend the Luncheon at which the Awards are presented and which draws its support both from leaders of commerce and industry and individuals associated with RADAR.

Those 'Men' who have been selected to receive the Awards for 1989 can be seen below:



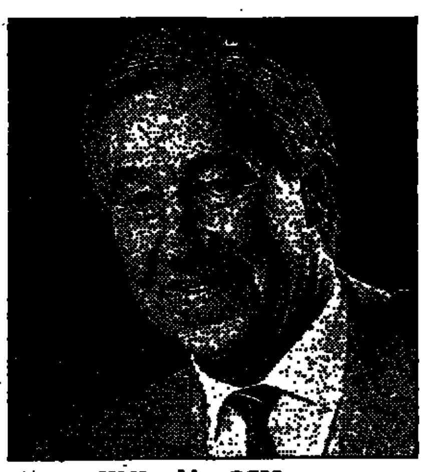
Major W.R. Hern, CVO
For his achievements and success in horse racing.

Johnathan Whybrow Esq
For his essential role at the Clapham Rail Crash.

The Roux Brothers
For their contribution to, and improvement of, British Cuisine.

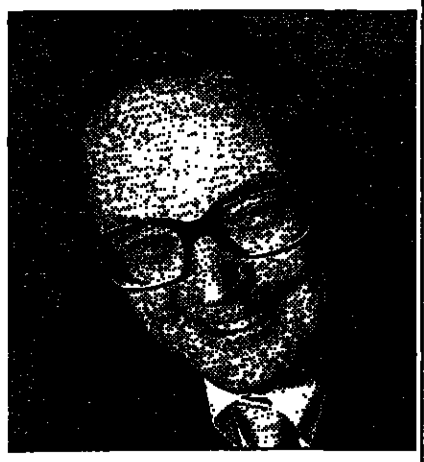
John Hawkridge Esq
For his tremendous mountaineering exploits in spite of suffering from Cerebral Palsy.

John Bevan Esq
For his launching of a national database for Motor Neurone Disease (MND). Since his selection as a 'Man' John has tragically died.



Terence W Hawkins QGM
For his display of exceptional courage in detaining an armed bank robber.

PC Stephen Hanson QGM
For bravery displayed during the Kings Cross Tube fire disaster.

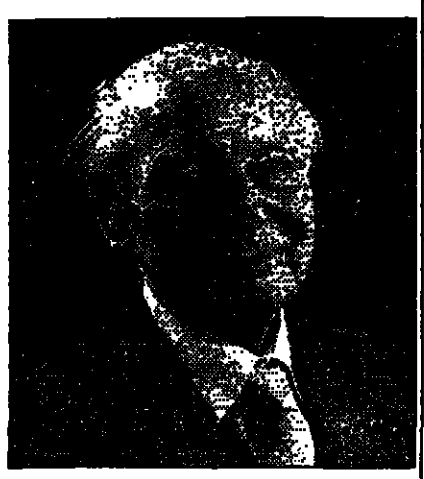


Harry Carpenter Esq
For his services as sports commentator.

Divisional Officer Alan R Riddet
For his bravery and initiative at the Lockerbie disaster.

David Holding Esq
For his achievement in winning the Wheelchair Division of the London Marathon in record time.

Graham Raines Esq
For his courage and determination in rescuing and supporting a man in the sea in the most arduous circumstances.



Sir John Gielgud
For his outstanding contribution to the world of entertainment.

1989 ACCESS 'Men of the Year' Luncheon

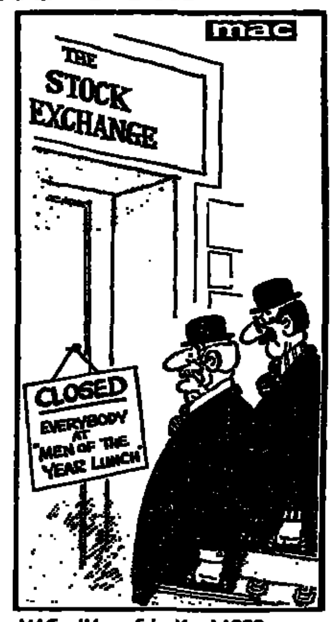
Wednesday, 8 November 1989

The 1989 ACCESS 'Men of the Year' Luncheon at which the 'Men of the Year' Awards are presented will be a very special occasion, marking the 30th Anniversary of the famous Awards.

The Luncheon is organised by RADAR with proceeds going towards the essential and ever-expanding service that it offers throughout the country. The Luncheon draws its support primarily from a wide range of British organisations to whom RADAR owes a great deal for continued support each year. Some 800 guests will be attending today at the London Hilton, not only to enjoy the Luncheon and speeches, but to be present when the coveted Awards are actually presented to the 'Men'.

Norman Tebbit CH, MP begins his period as Chairman of the Luncheon. The previous Chairman was Lord Tonypandy (Lord Tonypandy was a 'Man' in 1983). Speakers include Austin Mitchell MP, Labour Member for Great Grimsby, and Willie Rushton. Frank Bough, once again, will be reading the citations and film clips relevant to some of the 'Men' will be shown. The Very Reverend Lawrence Jackson, Provost of Blackburn, will be saying Grace.

The 1989 Luncheon is, once again, sponsored by ACCESS and marks a decade of close association with RADAR and the 'Men of the Year' tradition. ACCESS has been a loyal and greatly valued RADAR supporter for many years, not just in the Sponsorship of the Luncheon, but at various other activities organised by RADAR.



MAC – 'Man of the Year' 1988

1960-1989 30 Years of Courage and Achievement

Lord Tonypandy, 1988 Luncheon Chairman, accepts sponsor's cheque.

1989 marks the 30th Anniversary of the 'Men of the Year' tradition, and today's Luncheon sponsored by ACCESS, at the London Hilton on Park Lane is therefore a very special occasion for celebration.

Since the awards were first presented in 1960, some 400 'Men' have been selected as 'Men of the Year' for a wide range of achievements and distinctions. Previous 'Men' include Richard Branson, Sir John Harvey-Jones, Sir John Mills, Lord Tonypandy, the entire 1988 Olympic 'Gold' Hockey Team, Bob Champion, Bobby Moore, Professor Stephen Hawking and many other representatives from the RNLI, the Armed Forces and Fire Services as well as from areas such as Sport, Politics and Industry.

RADAR holds an annual Dinner, sponsored by Leeds Permanent Building Society, at the Savoy Hotel to 'reunite' all those who have been a 'Man of the Year'. The 1989 Dinner welcomed, amongst others, Lord Tonypandy, Simon Weston and Lord Longford. 'Leeders' Awards were presented to three 'Men' representative of each decade since 1960, for continued courage and distinction since their initial year of nomination.

For further details please write to: 25 Mortimer Street London W1N 8AB Telephone 01-637 5400

'MEN OF THE YEAR' Update......

Since the 'Men of the Year' Awards were first presented in 1960, almost 400 'Men' have been selected for outstanding courage and achievement. We have taken the opportunity here to provide some information as to what the 'Men' have been doing since their initial year of nomination:

Derek Jameson ...
nominated in 1988 for his achievements as radio and television presenter, he is now one of Britain's highest paid broadcasters with his five-nights-a-week chat show on satellite TV. He has received in the region of £500,000 for a two year deal.

Richard Dodds OBE ..
nominated in 1988 as Captain of the Olympic 'Gold' Hockey Team, he has now returned to his career as Surgical Registrar in Sussex.

Sir John Harvey-Jones ...
nominated in 1987 for his business achievements, his two aims for 1989 have apparently been to learn to touch type ("My writing is almost illegible!") and to learn to play golf ... it just so happens that Tony Jacklin is free at the moment!

Frank Bruno ...
nominated in 1986 as one of the great sportsmen of our time has now assumed a new role as BBC presenter of his own TV series.

Richard Branson ...
nominated in 1986 as 'an outstanding businessman and entrepreneur', continues to expand his business empire whilst making plans for the longest ever hot air balloon journey.

Simon Weston...
nominated in 1985 for bravery and determination in pursuing rehabilitation after the Falklands Campaign. He featured in a BBC documentary series earlier in the

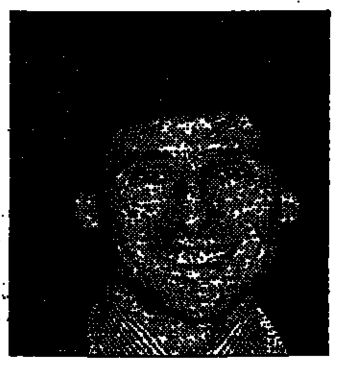
year and continues to spend much time with his charity 'Weston Spirit' which works to help children in Liverpool. Simon's first book, 'Walking Tall' has recently been published. He has also begun a life long ambition to race cars.

Bob Mathews ...
nominated in 1984 for gaining three gold medals in the New York Disabled Olympics, continues to achieve acclaim with his running.

The Rt Hon Viscount Tonypandy PC ...
nominated in 1983 as former Speaker of the House of Commons, has been Chairman of the ACCESS 'Men of the Year' Luncheon for 3 years and continues to spend much time supporting the causes closest to his heart.

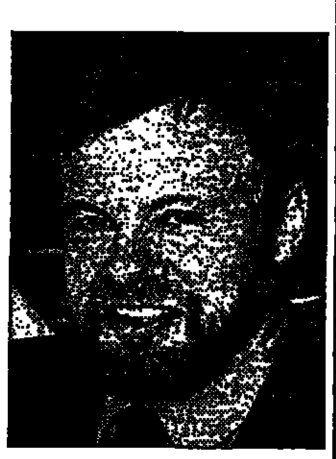
Steve Davis MBE ...
nominated in 1981 as World Professional Snooker Champion, he has again achieved victory this year against Steve Duggan.

David Scott Cowper ...
nominated in 1980 as a 'round the world yachtsman', he has continued to travel the seas - *latterly to the high Arctic* in an attempt to be the first Englishman to transit the North West Passage single-handed. David travelled in his converted ex-RNLI Lifeboat, the 'Mabel E Holland'.



Sebastian Coe ...
nominated in 1979 for holding the world record for 800 metres, 1500 metres and the mile. Sebastian has recently retired from full time running and hopes to begin a career in politics. He was a close friend of John Bevan, a 1989 'Man of the Year' who has tragically died since his nomination. John's wife together with Seb will be representing John at this year's Luncheon.

Professor Colin Blakemore ...
nominated in 1978 for his achievements as a 'vision research scientist', he has recently been awarded the *1989 Royal Society Michael* Faraday Medal which is given specifically to an active scientist who has contributed towards the public understanding of science. He has made two television series - one entitled 'The Mind Machine' which looked at the brain and its functions and the second, 'Imagina', which looked at the use of computers to make cartoons and other forms of pictures and movies.



Norman Croucher OBE ...
nominated in both 1971 and 1978 for his achievements as a 'legless mountaineer', his recent exploits include Monte Cinto and Paglia Orbia in Corsica. He continues with his plans for future ascents.

Colonel John N Blashford-Snell MBE FRSGS ...
was nominated in 1972 for his work with the Royal Engineers and has recently appeared on 'Wogan'. Terry Wogan has been 'Man of the Year' himself, nominated in 1982 for his achievements as radio and television personality.

Anthony Grey OBE ...
nominated in 1970 for his bravery as a hostage in Peking whilst working for Reuters, has pioneered 'Hostage Action Worldwide' to help those held hostage throughout the world. His latest book, 'Peking' was published earlier this year.

Chaim Topol ...
nominated in 1967 as 'Star of Musical Comedy', has more recently achieved success with the show Ziegfield whilst it ran at the London Palladium.

Allan Bennett ...
nominated in 1961 for his part in 'Beyond the Fringe', he has many playwriting successes, latterly with his play 'Single Spies' now playing in London's West End.

Jonathan Miller CBE ...
nominated also in 1961 for his part in 'Beyond the Fringe' he has recently directed King Lear, amongst other plays at the Old Vic earlier in the year.

Dick Thompson MBE ...
nominated in 1960 as gold medallist in the first Paralympics held in Rome where he succeeded in winning four gold medals. Since then he has actively participated in another 3 Paralympics and became the first Sports Writer's Association 'Disabled Sportsman of the Year'

RADAR

Modern Technology

Modern technology has completely changed the lives of many disabled people. For the whole community it has improved communication, simplified working systems, shortened distances to solving problems, *but for a disabled person it has opened up whole areas which were barred to them.*

Above all, it has given communication, without which all of us would wither. Few of us who have the ability to communicate freely and without hindrance can imagine the frustration of being unable to communicate. Try it by speaking one word every three seconds and see how rapidly everyone loses interest in you. Think how more depressing it would be to try to spell words out with a printer letter by letter and the determination needed to communicate in this way.

Computers, visual display units, voice synthesisers, all that equipment which now monopolises much of our lives, has also changed the lives of many disabled people and given them great opportunities.

Twelve years ago, RADAR started its work on the use of modern technology as a communication aid. Working jointly with Sweden, Canada and the United States it was possible to heighten interest in the subject among doctors, speech therapists, engineers, teachers and above all, disabled people themselves. For many it was still unnatural that 'speech therapy' should rely on "wizardry". Speech therapy was the improvement of verbal communication and not its replacement by another form of communication.

The Department of Health showed great interest and support and in 1981 RADAR received £250,000 from the Grand Charity of the United Grand Lodges of England and, with a similar amount from government, was able to set up six communication aids centres. These were in districts of the National Health Service, but would act as regional centres and would be financed by the special fund for five years. Those six centres have now become an integral part of the National Health Service and several other authorities have also started their own centres. A whole range of equipment now exists from the simplest to the most sophisticated, for as one eminent specialist said, "Regardless of the intellectual potential, the person with no communication first needs the capacity to express some seventeen basics. I am hot, I am cold, I am hungry/thirsty and he will then progress at his own pace to the equipment which might allow him to write his PhD."

In the past, aids for disabled people have been classified according to the area in which they have been used – education aids, employment aids, etc., but the computer can be them all. Given the ability to communicate, it is then possible to think of training or employment and the appropriate software turns the computer into what you wish it to be. There is one residential home where three of the residents learnt to use their computer for alternative communication and now keep the accounts of the home, are doing an Open University course, are into electronic mail and over the last ten years have seen their lives change dramatically, from one where days stretched drearily ahead to one in which there are not enough hours. We are still only at the threshold of the use of modern technology. It will play a remarkable part in the future, in a world which is to be more cerebral than muscular in its employment and in which disabled people will be able to play an equal role.

There can be no finer example of what can be than Stephen Hawking, Lucasion Professor of Mathematics at Cambridge, whose computers and voice synthesisers allow him to communicate, to lecture and be one of the greatest thinkers and mathematicians of our time. Not all of us can be Stephen Hawking, but modern technology gives the power to overcome that disability and to bring into play a little more of the ability which cannot assert itself.

INTERNATIONAL

RADAR is closely involved with similar organisations in a variety of countries and with 1992 rapidly approaching the work in this area continues to develop at a fast pace.

RADAR plays a very active role in various European Community projects. Earlier in the year, it hosted a meeting of the European Community HELIOS Programme which centres around establishing international networks to assist disabled people throughout Europe.

RADAR's association with the China Fund for the Handicapped has been firmly cemented this year with a visit from Dr Zhang Nan, International Director of the Fund, who is working with RADAR for a year.

RADAR also has close links with Rehabilitation International and plays a leading role within it. Mrs Thatcher can be seen receiving the Charter of Rehabilitation International from Dr Harry S Fang CBE. Dr Fang was selected as 'Man of the Year' in 1981 for his work as President of Rehabilitation International.

ACCESS

Much of life depends upon freedom of access and the ability to move about the environment. Education, training and employment are of little use if buildings are inaccessible and it is impossible to use your skills.

Offices, shops and other work-places all need to be accessible to disabled people and that presents a mammoth task. Legislation now insists that all new buildings are accessible, but does not require that existing buildings are adapted or that any extensions or alterations incorporate access for disabled people and it will be many years before it does. The main needs are for ramps, level areas with no separation by steps, accessible lavatories. Not only people with mobility problems must be considered, but also visually handicapped people and those with a hearing disability.

The Royal National Institute for the Blind in Great Portland Street demonstrates the ideal, as you would expect. On entering the building you activate a recorded message which says that this building is the Royal National Institute for the Blind and then tells you where reception is, where the lifts are and other information. Lifts announce the floor and all lift buttons are marked in braille. Colour contrasts and colour markings on steps help people with poor sight to distinguish obstacles.

Employers who wish to employ disabled people can obtain grants from the Department of Employment to adapt premises for disabled people and also to provide special equipment.

A fund has recently been established for the adaptation of theatres, concert halls, etc to encourage the participation of disabled people in the Arts and Theatre.

All new buildings include appropriate facilities for disabled people. Every new hotel and motel – and large numbers are going up along our motorways and arterial roads – includes accommodation for disabled people. In the past this facility invariably meant going out of the front door and finding a side door, but experience now provides an obstacle-free surface throughout. Older buildings being adapted or refurbished now consider the needs of disabled people and it is significant that RADAR is advising the Department of Trade and Industry on making all its offices accessible and friendly to disabled people. The RIBA has just launched its guidelines on designing, with disabled people in mind, and perhaps it will not be long before these needs are incorporated into all buildings naturally as they now include doors and windows.

Hopefully, we are past the days of long correspondence with an anonymous body who was building an accessible lavatory. Correspondence and reports showed that it would be the acme of perfection with every useful piece of equipment and everything strategically placed. A visit showed that accessibility had not really been grasped, and fully understood. This paragon of a facility had been built at the bottom of a flight of twenty steps!

HOW YOU CAN HELP RADAR

Please support RADAR's work throughout the country by sending a donation to the Head Office in Mortimer Street, or by arranging a Banker's Order. With reports earlier this year stating that there are now 6.2 million disabled people in Great Britain, the need for financial resources here at RADAR to implement and extend our work is considerable. Our sincere thanks in advance.

DONATION FORM

I wish to make a donation of £.................... towards the work of the Royal Association for Disability and Rehabilitation.

I would like to do so by Access/Visa/Cheque. (Please delete as appropriate).

I enclose a cheque for £.................... made payable to RADAR.

I wish to debit my Access/Visa* account........................

My card number is (13 or 16 Digits) *Please delete as necessary

VISA

Signature Expiry Date /

Name (on credit card)

Address

Bankers Order - **ONE DONATION ONLY**

The Royal Association for Disability and Rehabilitation, 25 Mortimer Street, London W1N 8AB

To Messrs .... Date ....
(Name and Address of Bank)

Please pay now to the National Westminster Bank PLC 69 Margaret Street, London W1N 8HD for the credit of The Royal Association for Disability and Rehabilitation, Account Number 04546490, the sum of
£........................(..)
(Amount in words)

Signature ....(..)
(Name in BLOCK CAPITALS)

My Account Number is

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When completed this form should be sent to The Royal Association for Disability and Rehabilitation, 25 Mortimer Street, London W1N 8AB for registration. It will then be forwarded to the Bankers to whom it is addressed.

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Consumer appliances

Why Pifco is set to turn up the heat

Christopher Parkes on the UK group's search for a broader base

Pifco has three times had cause to regret the abandonment of its long-established business style of keeping its head down and saying nowt.

After the first shock, about 15 years ago, the torch, hairdryer and coffee machine maker was overcome with shyness and retreated into its Manchester fastness for a decade. When it eventually reappeared above the parapet, it was bitten again. Twice.

Now, accepting that the occasional nip is all part of corporate life's rich pattern, Pifco appears to have come out into the open for good. Michael Webber, the chairman, is committed to a dash for growth. "We need to be big enough to take a knock," he says, with the benefit of experience.

His ambition is for the company to achieve what he calls critical mass with £100m-a-year sales. "We'll get out," he declares, if he and James Wallace, the finance director, do not manage this five-fold increase in three to five years. Wallace, a fellow chartered accountant, and straight man to the irrepressible chairman in this jolly managerial duo, winces at the thought of the company being swallowed up by a larger competitor.

"We feel unloved," says Wallace.

"We *are* unloved," snorts Webber.

They have their admirers. Timothy Parker, who led last September's management buy-out of Kenwood appliances from Thorn EMI, for example, aspires to match their 15 per cent return on sales. Although turnover has hardly budged since 1986, Pifco's pre-tax profits have forged ahead. Flattering as Parker's views may be, Messrs Webber and Wallace would rather win a place in the City's heart; this is the main job in hand.

From the time its shares were first marketed in 1957, the company had limited itself to providing only the barest essentials in terms of information about the business. Interim figures never showed turnover. Every forecast was couched in terms of "great caution." But while profits continued, and steady dividends were disbursed to the institutions squatting on the bulk of those shares not in Webber family hands, there was no apparent need for change.

So it was a significant day in the mid-1970s when an institutional fund manager came calling. Warmly welcomed, fed, and given a full run-down on operations, he returned to London and promptly dumped his 200,000 shares.

The horrified family put up the shutters against outsiders, Webber says. However, as the economy turned down at the end of the last decade, it became apparent that the long-standing belief that Pifco, simply by virtue of its mainstream interests in low-priced, everyday gadgetry, could resist all shocks, no longer held true.

In 1982 the company suffered its first profits fall – apart from a dip in 1969 caused by reorganisation costs – in its quoted history. Another year on; another drop in profit. The pressure was on. Recession was bad enough, but little Pifco was also being squeezed by *cheap Far Eastern imports* and retail chains demanding ever finer terms – not that it revealed any of these insights to anyone outside its offices.

Pifco showed its hand in 1984, only to suffer another setback. Its first significant acquisition, a £10m deal to buy Swan Housewares – a business three times its size – from BSR International, collapsed as Pifco retreated at the last moment. The third blow fell in 1986, when, a year after paying £1.5m for appliance maker Salton, Pifco said it found its acquisition to be in a far worse position than it had been led to believe. A £2.4m claim against Price Waterhouse, Salton's former auditors, is due in court next July.

Restoration work on Salton provided management with practice for a similar task undertaken with Carmen, a loss-making heated hair roller company picked up in 1987 for £845,000. Meanwhile, Pifco has been transformed; the one-time one-brand specialist in the cheap and cheerful now has three brands. Carmen is its top-end representative in hair dryers and other personal care products; Salton lives in the kitchen and Pifco is all around the house with a collection of fans, fairy lights and toasters.

And while there has been a shift towards higher-priced, higher-margin products, most of the lines cost less than £50 and can still qualify, even in these straitened times, as impulse buys.

Eager to show its ways have changed, the company has taken on a new broker, set out its stall at lunches for analysts and fund managers, and broken the habit of a lifetime by hiring public relations advisers.

Starting at a price/earnings ratio of 5 on Tuesday, October 17, the day after echoes of Black Monday rumbled through the stock market, Webber mused glumly on whether this was time and money well spent. However, he has accepted that circumstances seem to demand considerably more expenditure of both valuable commodities. *The object is to build the business*, its rating and the market in its shares.

Stocks in a small company controlled to the extent of 50 per cent plus by family and board, and where holders of "A" shares are effectively disenfranchised, are not among the most marketable. A one-for-one scrip issue just completed may help, and hints of possible changes in the share structure may lead to more movement.

But the key to developing City interest in the company and its shares lies in the scale of the business. Pifco is committed to expansion, and is currently examining a handful of possible acquisition and licensing opportunities in the UK and overseas. With interest rates, retail sales and stock markets in their present condition, shaking the odd tree to see what falls out might be a fruitful exercise. He has said publicly that he is especially interested in electric kettles and irons, the two mainstream small appliances missing from Pifco's portfolio.

Michael Webber: his stable includes Carmen Crimpers, Salton coffee maker, and Pifco iron

Adding these two products, used in virtually every British home, is almost as important as the project to raise turnover to £100m. Manufacturers need a full range of products because the retail trade, where concentration has now reached the stage where Boots and Argos have 50 per cent of the small appliances trade between them, much prefers one-stop shopping – buying all supplies of a particular category of product from a single source.

SEB, the French appliances group, recently established itself as such a source in the European market at large when it bought Rowenta to complement its existing Tefal and Calor brands. Glen Dimplex, a privately-held Irish company, amply covers the UK and old Commonwealth territory with its accumulation of named brands such as Morphy Richards and Mellerware.

Pifco missed one opportunity recently when it made a fresh bid for Swan, which it had in its clutches in 1984, only to see it sail past into the control of France's Moulinex. It also bid unsuccessfully for Kenwood, which, although it is primarily a food-mixer maker, owns one of the best known brands in Britain and has a comprehensive international distribution network.

A mixture of accountant's prudence and, possibly, re-emergent traditional Webber conservatism made Pifco jib at the prices asked. "Even if we were a £250m company we would not have paid £61m for Kenwood," the chairman insists.

However, he cannot allow too many opportunities to slide by. There has been a lively market in small appliance companies which is starting finally to produce an effect worthy of the title "restructuring" – even consolidation. Prices are unlikely to fall. Rowenta, which has changed hands three times in as many years cost its new owner, SEB, $225m last summer two years after Chicago Pacific of the US bought it for $75m from joint owners Rothmans and Allegheny International.

"We have a number of banks prepared to lend us any amount of money," Webber declares. With "north of £4m and south of £10m" in the bank, Pifco can borrow at fine rates, he adds, unperturbed by Britain's 15 per cent prevailing interest rates.

With the missing links in its product portfolio in place, and turnover around target levels, the next embellishments to the grand design could be a re-rating by the investment community, enfranchisement of the "A" shares, and the issue of paper to pave Pifco's way to the big time – and the minefields – in the international marketplace.

Companies and the environment

A practical alternative

John Hunt reports on the role of a team of top businessmen

The immense increase in public concern for the environment is presenting business and industry with a major challenge; governments are facing mounting pressure for stricter regulations to control pollution.

Companies are having to develop new strategies to bring their activities in line with the concept of sustainable development. This definition – which has become a catch-phrase – was described in the Brundtland report on the world environment as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs."

Tony Cleaver, chief executive of IBM UK, has just been appointed chairman of a team of top British businessmen which will be working on a two-year programme to find solutions to some of these problems.

With an ironic smile he points out that the UK Centre for Economic and Environmental Development, which will be advising the team, has already collected 61 definitions of sustainable development.

"We don't see ourselves pontificating or prescribing," he says. "We see ourselves as working from our own practical experience. I would not have thought that anybody could look around at the general state of the environment today and say that we could not have done better."

Nor does he underestimate the complexity of the problems, the environment being an issue where "none of the normal boundaries applies."

The programme the team will work on, Business in the Environment, has been established by Business in the Community, an association of 400 UK companies which has the Prince of Wales as president, and UK 2000, an environmental partnership of voluntary organisations, companies, local authorities and government.

Others on the environmental team include CEGB, Costain, TSB, ICI, Tesco, Johnson Wax, Albright and Wilson and British Telecom.

IBM is a pioneer in environmental awareness in business. As a major multinational producing information technology, it introduced its own environmental programme in 1971 in all of the 130 countries where it operates.

Tony Cleaver: "Ultimately, costs go to the consumer"

This commits the company to meet or exceed all government regulations on pollution and establish its own stringent standards where such regulations do not exist. It will attempt to use non-polluting technologies and to minimise the consumption of energy and materials. Products and processes are subject to regular assessment in order to reduce or eliminate damaging impact on the environment.

In the UK, the company has just taken this a stage further by setting up an environmental council under David Livermore, director of corporate services. Six other senior executives representing all aspects of IBM's business serve with him. The intention is to sharpen the company's strategy for tackling environmental questions.

Business in the Environment is a natural development for Cleaver, 51, who joined IBM after graduating from Oxford in 1962. He has a strong interest in the relationship between business and society and plans his week so that he spends at least one day dealing with external aspects of the company's activities. Two days are spent on internal management, one with customers and one with employees.

During the 1970s he became deeply conscious of the apparent conflict between economic development and concern for the environment and found the immense complexity of these issues intellectually challenging.

IBM is not in the first division of polluters although it has been a heavy user of chlorofluorocarbons (CFCs) which deplete the ozone layer. These are used for cleaning semiconductor devices and circuit boards.

But the company has developed alternatives and will phase out CFCs in its plants throughout the world by 1993 and in its plant at Greenock, Scotland, by the middle of next year.

"It has certainly increased our costs in the very short term," says Cleaver. "This is the real issue that industry is going to face. The costs go to consumers ultimately and sometimes there appears not to be an understanding of that."

An aim of the team is to persuade companies generally to give greater priority to protection of the environment in their decision making.

The team will attempt to promote a better understanding and application of sustainable development and clarify the economic thinking on which environmental priorities will have to be based.

Cleaver says the team does not want just to generate ideas which will then drift away. "It has to be something practical."

The IBM philosophy is to look at the effect of its actions on its five "stakeholders" – shareholders, customers, employees, business associates and the community. Among all of these he sees environmental pressures building up and interacting.

Cleaver accepts that further environmental legislation is inevitable but hopes that it will take place after an informed debate with the views of industry being taken into account.

"This is so far beyond the competence of any individual organisation that there must be governmental and legislative action," he says.

However, the search for a clearer understanding of environmental threats has a positive side.

In a recent speech Cleaver declared: "I see a business opportunity. The information technology industry has a very special role to play in helping scientists interpret just what is happening to our planet and the natural systems which support its life."

COMMODITIES AND AGRICULTURE

Gold traders hopes raised as price hits 4-month high

By Kenneth Gooding, Mining Correspondent

A SHARP rise in the price of gold bullion yesterday sparked hopes among traders that the downward price trend, which has lasted about two years, might now be over.

In London yesterday the two price-establishing "fixing" sessions attended by leading gold bullion dealers lasted much longer than usual. In the morning session the gold price was fixed at $385.50 a troy ounce, up $5.25 from Monday's close and the highest level for four months.

At the afternoon "fix" the price eased back to $384.25 an ounce.

There was a very heavy volume of sizeable buying orders placed, particularly from the Middle East, during the morning session, according to Mr Tom Butler, bullion dealer at the Samuel Montagu financial services group.

The price was pushed up to $387 an ounce before sellers came in.

"Sentiment has turned very positive after three months of stagnation in the gold price and many months of bearishness," he added.

Ms Rhona O'Connell, precious metals specialist in Shearson Lehman Hutton's research team, suggested that the price of gold might now reach $400 an ounce by the end of this year.

"But I would prefer to see it consolidated between $375 and $385 for some time – perhaps a week or more – to establish an orderly up-trend rather than race ahead without strong foundations," she added.

Mr Mark Wellesley-Wood, head of the mining team at the Kleinwort Benson securities group, suggested gold "has gathered its own momentum and is supported by fundamentals. The rise is not just a flash in the pan."

He also suggested that the gold price might slip back towards $370 an ounce if the market underwent a justified technical correction.

"But by next year the long-term fundamental picture should result in bullion establishing itself above $400 an ounce."

However, Mr Robert Weinberg, head of international mining sales at the James Capel securities house, suggested the bear market had not yet ended. "To be convinced the upturn had started I would want to see good demand from western investors. And there would have to be a good reason for investors to be scared (into buying gold), most likely by an unexpected event."

Mr Weinberg said many Far Eastern investors felt betrayed by gold's behaviour over the past 18 months and if this latest price rise proved to be only a false dawn their disappointment would be all the greater and there would be a rapid sell-off.

He stood by his previous forecast that the gold price would soon resume its downward path and fall to between $285 and $320 an ounce.

Cocoa trader says it can cover contracts

By William Dawkins in Paris

SUCRES ET DENREES (Sucden), the Paris sugar and cocoa trader, yesterday confirmed that it would, if necessary, deliver on one of the largest short positions ever held on the London market.

Sucden, which is 90,000 tonnes short on London's December cocoa contract, yesterday denied suggestions that it might be unable to meet all its commitments if a squeeze on the contract took place. The announcement will come as a relief to London cocoa traders who had feared that the market might be disrupted by a possible failure of the French company to meet its obligations.

Mr Jean-Jacques Alphandery, general manager of the group's cocoa trading subsidiary, Merkuria Sucden, said the group had already graded 86,500 tonnes of cocoa, which could be tendered for delivery against the December contract. It was still grading the rest.

The group will also have access to an estimated 180,000 tonnes it bought from the Ivory Coast's 1988-89 cocoa crop, which had been earmarked for storage in Europe for up to two years.

If, however, prices moved so that December cocoa cost less than March, Sucden would instead deliver nothing next month and roll over its cocoa for March delivery, said Mr Alphandery.

He said he was certain that Philipp Brothers, the big New York trade house, was the key holder of December long positions.

David Blackwell adds: Concern over the tightness of nearby supplies and the large open position in its December cocoa contract prompted the London Futures and Options Exchange (Fox) to start raising its initial margins on the contract last month.

Next Monday the initial margin will be raised again to £500 a tonne, to be followed by another rise later this month and a final increase to 100 per cent of the contract on December 5.

Since the margins were first raised on October 16, the open position has fallen from 29,000 lots of 10 tonnes each to 20,634 lots at the end of business on Monday.

The December contract closed yesterday at £724 a tonne, a premium of £26 over the March contract.

London Fox said yesterday that arrangements had been made to handle grading of the "unusually high volume of cocoa against the December position." Any move to bring forward grading for early presentation was very welcome.

Brazil plans sugar juggling act

By John Barham in Sao Paulo

REPRESENTATIVES of five commodity trading houses and Brazilian government officials say they have reached agreement in principle for a complex operation that would enable Brazil partially to honour 492,000 tonnes in outstanding sugar export commitments this year.

Mr Christopher Rohl, Rio de Janeiro representative of Sucres et Denrees, the French commodity trader, said that Brazil would now ship 317,000 tonnes of white sugar instead of the 177,000 tonnes of whites and 315,000 tonnes of demerara covered by the original contract between the Government's Sugar and Alcohol Institute (IAA) and the traders.

With only the 317,000 tonnes of whites remaining in the IAA's stock the traders and the IAA have devised a scheme whereby the Institute will honour the original white sugar contract. But instead of shipping the demerara sugar, it will sell the other 140,000 tonnes of whites, for which the market is currently paying a premium of $80 a tonne.

"The traders will pay the premium to the IAA and in exchange, it will cede the remaining 93,500 tonnes of Brazil's US import quota to the traders, thus liquidating the contracts," an IAA official explained.

The US limits sugar imports, but pays prices above the international market.

Washington reacted to rumours that Brazil would not fill its US quota by threatening to cancel the quota and share it out among other suppliers.

Brazil has faced a severe shortage of sugar all year and reports last week that Brazil would not honour its 1989 exports forced a short-lived rise in sugar futures.

President Jose Sarney was due to give the fall-back arrangement his final approval on Monday afternoon, but postponed a decision for 24 hours.

The scheme is likely to face intense opposition from sugar-cane growers in the North-east of Brazil, the president's political heartland. Only North-eastern producers are allowed to export sugar and they want to maximise sales while world prices remain high, rather than allow the export houses to appropriate Brazil's remaining share of the US further quota.

Brazilian sugar-cane output has slumped at a time when international demand and prices have climbed, while domestic demand for fuel alcohol (which is distilled from sugar-cane) has also risen, forcing the IAA had to cut its forecast exports of 1.2m tonnes by almost half.

Creditors' stocks hang over tin market

By Lim Siong Hoon in Kuala Lumpur

WITH THE imminent settlement of creditor claims against the International Tin Council, the Kuala Lumpur market is watching for signs of how the tin collateral will be disposed of. "If the stocks are unloaded on the market now, there will be a crash," says one trader.

About 7,000 tonnes are held by Malaysian banks at smelter warehouses in Penang.

Kuala Lumpur tin prices have lost more than 10 per cent in the past month to around 19 ringgit now, the lowest in a year. Most Malaysian miners failed to hedge their production when prices were relatively high a few months ago, apparently in anticipation of stable supply and stable prices ahead.

They are now worried, and have appealed, informally, to the creditor banks to keep the tin collateral several months longer for the national industry's sake.

Another suggestion has been to sell the stocks to consumers without passing it through merchants.

Once the ITC debt is settled, there is little likelihood that the banks will take up either suggestion. Sale of the metal is more likely to be dispersed over several months, however, says one trader.

In their dilemma between anticipation of greater consumer demand and the shock of sliding prices, miners in Malaysia have chosen the second route out. In recent weeks, the rapid fall in prices triggered a large sell-off that subsided only these few days, according to traders. Now, with the tin collateral threatening to keep prices down until next year, as is expected in Kuala Lumpur, the miners' dilemma has been made deeper.

The Association of Tin Producing Countries seems a shade less pessimistic, however. "The price must be at rock bottom," says an ATPC official. "It cannot go down further without endangering future supplies."

Stock figures released by the Statistics Department recently offer little comfort to the Kuala Lumpur market nor its producers. In August the level rose to nearly 19,000 tonnes, from 18,000 tonnes two months earlier. Production in the eight months to August, compared with the period earlier, has also risen, by 12 per cent to 21,000 tonnes.

Future exports of Soviet oil in doubt

By Steven Butler

THE POSSIBILITY of reductions in future Soviet oil exports was raised last night by Mr Alexander Arbatov, vice-chairman of the Soviet Academy of Sciences' natural resources committee, speaking to a meeting of the British Institute of Energy Economics.

Mr Arbatov said current levels of Soviet oil production were uneconomic and suggested that it would make economic sense to cut production and reduce exports, perhaps developing other export industries to replace oil. The Soviet Union might begin to charge Warsaw pact countries in hard currency for their oil supplies, which could cause them to turn to the West for cheaper imports.

Net Soviet exports to the West last year were 2.2m barrels a day. Oil exports are the Soviet Union's most important source of convertible currency.

Copper loses its grip on car radiator market

By Kenneth Gooding

THE WEIGHT of copper used in car radiators has dropped by 37 per cent since 1980 even though the number of cars produced has risen by a quarter, according to the Commodities Research Unit. And there are two important lessons to be learned by the metals industry from this, it suggests.

Firstly, promotion can be decisive in some specialist markets. Copper lost out to aluminium in car radiators because the aluminium industry was willing to spend on promotion, research and development, says Mr Philip Tomlinson, a CRU analyst.

Secondly, substitution of one material for another is a long-term business and often takes place for technological reasons rather than because of price differentials.

The work done by the aluminium producers to break into the car radiator market started in the 1970s at a time when the motor industry outside Japan was moving quickly to get the weight out of cars to help save fuel. There were problems with early aluminium radiators but the industry persevered with expensive development work to solve them, says Mr Tomlinson. And the fall in the use of copper was a consequence.

If replacement radiators are excluded, the decline has been even steeper. Copper used in new cars has fallen by 43 per cent to 55,000 tonnes in 1988.

"The share of the market could decline even further in the next few years as at least one major manufacturer (Ford) is currently considering a switch to 100 per cent use of aluminium radiators," says the CRU in a report published in its monthly Copper Studies.

"Copper Studies". £85 for special issue or £725 for 12 issues from CRU, 31 Mount Pleasant, London WC1X 0AD, UK.

WEEKLY METALS PRICES

Prices from Metal Bulletin (last week's in brackets).

ANTIMONY: European free market 99.6 per cent, $ per tonne, in warehouse, 1,780-1,820 (same).

BISMUTH: European free market, min. 99.99 per cent, $ per lb, tonne lots in warehouse, 4.45-4.80 (same).

CADMIUM: European free market, min. 99.5 per cent, $ per lb, in warehouse, 5.20-5.60 (5.30-5.60).

COBALT: European free market, 99.5 per cent, $ per lb, in warehouse, 7.50-7.70 (same).

MERCURY: European free market, min. 99.99 per cent, $ per 76 lb flask, in warehouse, 240-255 (235-250).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 3.00-3.05 (3.05-3.15).

SELENIUM: European free market, min 99.5 per cent, $ per lb, in warehouse, 5.50-6.00 (5.70-6.00).

TUNGSTEN ORE: European free market, standard min. 65 per cent, $ per tonne unit (10 kg) WO, cif, 44-59 (same).

VANADIUM: European free market, min. 98 per cent, $ a lb VO, cif, 3.30-3.60 (3.50-3.90).

URANIUM: Nuexco exchange value, $ per lb, UO, 9.60 (same).

Shoring up Britain's coastal defences

Bridget Bloom on efforts to protect land in peril from the sea

WILL IT be merely a finger in the dyke? Or will Britain prove to have anticipated the worst effects of global warming and to have protected its citizens, including its farmers, from them?

Last weekend, Mr John Gummer, the Minister of Agriculture, inaugurated a £5m programme to strengthen the sea defences at Aldeburgh, the pretty Suffolk coastal town made world-famous as the home of Benjamin Britten and Peter Pears and the annual music festival they founded.

The Aldeburgh project is seen as a vital component in the sea defences for the whole East Anglian region. It was not only designed to cope with the existing threat but also took account of the probable rise in sea levels due to global warming, Mr Gummer said.

The Minister added that the strengthened sea walls would also help to protect environmentally sensitive land: it was the first time environmental criteria had been used in deciding which land to protect, he said. Had it not been, farm surpluses might have persuaded the authorities to feel "less concerned about the loss of agricultural land."

Although he did not go into details, Mr Gummer is understood to have failed to get Treasury approval for the full capital works of the sea defence programme originally planned for East Anglia. In any event, among critics who charge that the present plans are inadequate is the Country Landowners Association, which claims that only some £180m of an estimated 10-year programme of £270m is sure of funding, the rest being subject to extra tough cost-benefit analyses.

CLA believes that a decision has been taken not to protect much good agricultural land which would have been protected in the past: of some 1,300 km of "frontline" defences only some 300 km are held directly to protect people and property and only these seem sure of being strengthened, a CLA spokesman said.

Yesterday, an official of the agriculture ministry – which has overall responsibility for sea defences – would confirm only that £44.5m was being made available in the current year for sea defences, against some £33m provided for 1982-83. While more than half total expenditure on sea defences comes from central government grants, local authorities and drainage boards are also responsible for some funding.

The new sea defence programme is necessary principally because existing defences, rebuilt after the disastrous 1953 storms which breached them in several places, are nearing the end of their useful life.

In Aldeburgh, for example, a kilometre-long sea wall protects a shingle bank lying between the sea, the River Alde and the southern-most fringes of the town. The steel piles, the first line of defence, have been worn away by the pounding of the sea and shingle so that the sea has got under the wall. This has shifted in places, where it is in danger of collapsing.

This state of affairs is mirrored down the coast and into Essex, and northwards into Norfolk and Lincolnshire: there are fears that, were there to be storms of the ferocity of 1953, the defences could again be breached, jeopardising life, property and land once more.

Mr Bernard Ayling, principal engineer of the Anglia region of the National Rivers Authority (which as part of the privatisation process of the Water Authorities has taken over responsibility for sea defences) lists the most sensitive areas as including Aldeburgh, Great Yarmouth, the Broads river system and much of the Lincolnshire coast.

"Sea defences are a very inexact science" Mr Ayling says. Predictions as to what might happen are "in the end only as good as the weather forecasts". For the time being, the UK's sea defences, planned to last 50 to 60 years, make allowance for a 5 mm rise in sea levels a year – "or about ten inches over 50 years".

Whether this will be enough to take account of the effects of global warming is not yet clear, Mr Ayling says, though firmer estimates should be available in about three years when recently initiated studies are completed.

WORLD COMMODITIES PRICES

LONDON MARKETS

COPPER prices recouped most of Monday's losses on the LME yesterday as Comex staged a rally. Increased technical trading, particularly for deliveries over the year-end, took the market out of contango – a cash premium of £5.50 emerged at the close. This partly reflected concern over possible disruption to supplies from Chile's Chuquicamata mine. Tin prices closed at the day's high, with short-covering and some European end-user offtake attracted by low prices. Overhead resistance is expected around $7,500 a tonne. Available supplies appear more than adequate to meet current demand, analysts said. LME warehouse stocks of 8,435 tonnes are the highest for about a year. Nickel prices also rallied, but analysts still expect a test of major support around $9,400 a tonne.

SPOT MARKETS		
Crude oil (per barrel FOB)		+ or -
Dubai	$16.30-6.40w	+0.05
Brent Blend	$18.93-8.97w	+.025
W T I (1 pm est)	$20.15-0.20w	+.125
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$183-185	-2.0
Gas Oil	$184-185	
Heavy Fuel Oil	$100-102	+1.0
Naphtha	$163-165	-0.5
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$384.25	+4.0
Silver (per troy oz)♣	528c	+2
Platinum (per troy oz)	$493.65	+4.90
Palladium (per troy oz)	$137.15	+1.05
Aluminium (free market)	$1735	+10
Copper (US Producer)	119½-126c	
Lead (US Producer)	40.5c	
Nickel (free market)	465c	+5
Tin (Kuala Lumpur market)	19.06r	+0.08
Tin (New York)	336.50	+9.0
Zinc (US Prime Western)	78¾c	
Cattle (live weight)†	112.56p	-0.24*
Sheep (dead weight)†	204.51p	+26.3*
Pigs (live weight)†	95.93p	-0.63*
London daily sugar (raw)	$364.4v	+12
London daily sugar (white)	$399.0v	+2.8
Tate and Lyle export price	£346.0	-0.5
Barley (English feed)	£112.0	
Maize (US No. 3 yellow)	£128.25	
Wheat (US Dark Northern)	£123.25y	
Rubber (spot)♥	56.00p	-0.75
Rubber (Dec)♥	56.50p	-0.75
Rubber (Jan)♥	59.50p	-0.75
Rubber (KL RSS No 1 Dec)	224.5m	
Coconut oil (Philippines)§	$475.0v	-5.0
Palm Oil (Malaysian)§	$310.0	-2.5
Copra (Philippines)§	$310.0	
Soyabeans (US)	£168.0	-2.0
Cotton "A" index	83.60c	-0.40
Woolltops (64s Super)	592p	-4

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. y-Oct. z-Oct/Dec. t-Jan/Mar. v-Nov/Dec. w-Dec. x-Jan/Feb. †Meat Commission average fatstock prices. * change from a week ago. ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.

COCOA – London FOX				£/tonne
	Close	Previous	High/Low	
Dec	724	718	724	715
Mar	697	689	697	685
May	710	699	711	697
Jul	725	714	722	713
Sep	740	729	737	728
Dec	764	754	764	754
Mar	784	776	785	775

Turnover: 3302 (3111) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Nov 7 812.45 (805.56); 10 day average for Nov 8 811.34 (814.87)

COFFEE – London FOX				£/tonne
	Close	Previous	High/Low	
Nov	707	715	716	705
Jan	685	695	693	680
Mar	696	695	703	690
May	715	719	721	712
Jul	734	736	742	735
Sep	750	756	760	748
Nov	770	778	776	

Turnover: 2181 (1949) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Nov 6: Comp. daily 62.72 (62.02). 15 day average 61.39 (61.23)

SUGAR – London FOX				($ per tonne)
Raw	Close	Previous	High/Low	
Dec	333.00	324.00	323.00	
Mar	320.00	319.80	329.00	321.00
May	323.40	314.60	324.00	316.80
Aug	315.00	306.40	316.60	306.40
Oct	303.60	297.80	304.40	298.00
Dec	286.40		285.60	285.40
White				
Dec	396.50	389.00	398.50	388.00
Mar	395.50	389.00	396.50	390.00
May	390.00	385.50	401.00	389.90
Aug	408.50	305.00	410.00	408.50
Oct	364.50	351.00	362.50	

Turnover: Raw 7143 (1727) lots of 50 tonnes. White 1065 (756).
Paris- White (FFr per tonne): Dec 2460, Mar 2480, May 2535 Aug 2610, Oct 2460, Dec 2424.

CRUDE OIL – IPE				$/barrel
	Close	Previous	High/Low	
Dec	18.93	18.97	18.95	18.82
Jan	18.54	18.56	18.56	18.46
Feb	18.25	18.30	18.26	18.20
IPE Index	18.95	18.83		

Turnover: 6854 (5019)

GAS OIL – IPE				$/tonne
	Close	Previous	High/Low	
Nov	186.25	184.25	186.50	184.00
Dec	180.50	179.25	180.50	178.50
Jan	176.50	175.25	176.50	174.00
Feb	171.25	170.25	171.25	169.50
Mar	166.00	165.50	166.00	165.00
Apr	160.00	160.75	161.50	160.00
May	159.00		159.00	
Jun	158.50		158.50	
Jul	157.00	157.00	157.00	156.50

Turnover 8802 (8672)lots of 100 tonnes

JUTE
November/December 1989 c and f Dundee BTC $515, BWC $515, BTD $475, BWD $473; c and f Antwerp BTC $490, BWC $490, BTD $455, BWD $445.

COTTON
Liverpool- Spot and shipment sales for the week ended November 3 amounted to 498 tonnes against 376 tonnes in the previous week. Slow trading occurred with interest in Israeli, American west African and Pakistan growths.

LONDON METAL EXCHANGE	(Prices supplied by Amalgamated Metal Trading)					
	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)						Ring turnover 22,575 tonne
Cash	1760-5	1733-8	1740	1735-40		
3 months	1715-8	1693-5	1715/1703	1702-4	1709-11	32,934 lots
Copper, Grade A (£ per tonne)						Ring turnover 31,400 tonne
Cash	1662-4	1637-9	1669/1657	1658-9		
3 months	1657-8	1638-9	1662/1647	1654-5	1659-9.5	77,476 lots
Lead (£ per tonne)						Ring turnover 9,075 tonne
Cash	459-60	463-5	467/460	465-6		
3 months	450-1	454-5	455.5/448	454-4.5	448-9	12,178 lots
Nickel ($ per tonne)						Ring turnover 2,160 tonne
Cash	10225-75	9975-10000	10050	10050-100		
3 months	9875-900	9625-50	9925/9625	9750-75	9875-900	6,879 lots
Tin ($ per tonne)						Ring turnover 985 tonne
Cash	7380-70	7160-200	7385/7370	7320-40		
3 months	7420-5	7230-60	7440/7300	7390-400	7430-50	4,924 lots
Zinc, Special High Grade ($ per tonne)						Ring turnover 10,975 tonne
Cash	1510-20	1510-20	1505	1503-8		
3 months	1455-60	1465-8	1470/1450	1453-8	1450-5	16,220 lots
Zinc ($ per tonne)						Ring turnover 1,850 tonne
Cash	1475-85	1450-60		1465-70		
3 months	1430-40	1405-15	1430	1420-5	1420-30	3,017 lots

LME Closing £/$ rate: SPOT: 1.5795 3 months: 1.5519 6 months: 1.5318 9 months: 1.5126

POTATOES – BFE				£/tonne
	Close	Previous	High/Low	
Nov	130.0	130.0	130.0	
Apr	197.0	195.2	199.0	194.0
May	225.0		224.5	222.5

Turnover 337 (291) lots of 40 tonnes.

SOYABEAN MEAL – BFE				£/tonne
	Close	Previous	High/Low	
Feb	144.00		144.00	
Apr	142.00		142.00	
Jun	140.00	141.00	140.00	

Turnover 60 (0)lots of 20 tonnes.

FREIGHT FUTURES – BFE				$10/index point
	Close	Previous	High/Low	
Nov	1690	1697	1695	1687
Dec	1687	1691	1690	1685
Jan	1695	1702	1702	1695
Apr	1700	1710	1705	1697
BFI	1654	1654		

Turnover 290 (364)

GRAINS – BFE				£/tonne
Wheat	Close	Previous	High/Low	
Nov	108.00	107.60	108.00	107.40
Jan	112.00	111.75	112.00	111.45
Mar	115.80	115.50	115.80	115.70
May	119.00	118.70	119.00	118.40
Jun	120.60	103.75	120.00	
Nov	106.95	106.85	106.95	
Barley	Close	Previous	High/Low	
Nov	105.00	105.75	105.50	105.00
Jan	109.20	109.35	109.35	109.20
Mar	112.20	112.30	112.40	112.20
May	114.25		114.55	114.50

Turnover: Wheat 376 (205). Barley 80 (62). Turnover lots of 100 tonnes.

PIGS – BFE				(Cash Settlement) p/kg
	Close	Previous	High/Low	
Nov	125.5	126.6	125.0	
Feb	115.5	116.0	115.0	
Apr	116.0	116.0	115.0	

Turnover 90 (10) lots of 3,250 kg

LONDON BULLION MARKET		
Gold (fine oz)	$ price	£ equivalent
Close	384-384½	243-243½
Opening	381¼-381¾	241-241½
Morning fix	385.50	243.494
Afternoon fix	384.10	243.101
Day's high	385½-386	
Day's low	381¼-381¾	
Coins	**$ price**	**£ equivalent**
Mapleleaf	394-399	249-252
Britannia	394-399	249-252
US Eagle	394-399	249-252
Angel	394-399	249-252
Krugerrand	383-388	242-244
New Sov.	90-91	57-57¾
Old Sov.	90-91	57-57¾
Noble Plat	499.55-507.50	315.65-320.70
Silver fix	**p/fine oz**	**US cts equiv**
Spot	334.70	529.25
3 months	347.20	540.80
6 months	359.10	551.45
12 months	382.50	573.50

TRADED OPTIONS				
Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Nov	Jan	Nov	Jan
1650	120	101	29	58
1750	62	56	66	110
1850	27	28	129	179
Copper (Grade A)	Calls		Puts	
2500	153	143	56	115
2600	98	99	99	168
2700	59	66	158	232
Coffee	Jan	Mar	Jan	Mar
650	53	80	18	35
700	25	55	40	60
750	10	36	75	91
Cocoa	Dec	Mar	Dec	Mar
700	36	44	13	47
750	14	25	41	78
800	4		81	
Brent Crude	Jan	Feb	Jan	Feb
1800	78	80	24	
1850	49	54	45	
1900	28	35	75	

US MARKETS

IN THE METALS, prices advanced in all markets led by gold, reports Drexel Burnham Lambert. December gold rallied up $4.60 on heavy technical buying. A lower U.S. dollar also added strength. Silver and platinum rose from spillover buying. Copper was up as news of a Chilean explosion and higher London prices prompted buying. In the softs, sugar had the most active day with prices soaring 40, basis March. Heavy volume was posted for the session. Cocoa and coffee were featureless. The grain markets were all slow as many await Thursday's crop reports. The livestocks featured a limit-up move in the pork bellies. Live hogs remained strong adding to Monday's heavy gains. Cattle was firm after local activity. The energy complex had slow, two-sided trading. The crude oil market swayed around the $20 level throughout the session.

New York

GOLD 100 troy oz.; $/troy oz.				
	Close	Previous	High/Low	
Nov	386.2	381.5	384.0	384.0
Dec	388.4	383.8	388.9	386.8
Jan	390.0	386.0	0	0
Feb	392.9	388.3	393.4	391.5
Apr	397.3	392.6	397.5	396.5
Jun	401.6	396.9	402.0	400.0
Aug	405.7	401.0	0	0
Oct	410.1	405.4	409.0	409.0
Dec	388.4	383.8	388.9	386.6

PLATINUM 50 troy oz; $/troy oz.				
	Close	Previous	High/Low	
Jan	500.6	496.6	502.0	498.1
Apr	505.1	501.0	507.0	503.0
Jul	509.6	505.5	510.0	507.5
Oct	514.1	510.3	513.5	512.0
Jan	512.0	0	0	0

SILVER 5,000 troy oz; cents/troy oz.				
	Close	Previous	High/Low	
Nov	526.5	523.8	0	0
Dec	529.5	526.8	534.0	527.5
Jan	532.4	529.7	0	0
Mar	541.5	538.6	545.0	540.0
May	549.2	546.4	553.0	547.0
Jul	557.1	554.3	560.5	556.0
Sep	565.2	562.4	565.0	564.5
Dec	576.4	573.6	581.0	576.5
Jan	580.0	577.2	0	0

INDICES				
REUTERS (Base: September 18 1931 = 100)				
	Nov 6	Nov 3	mnth ago	yr ago
	1856.6	1863.6	1858.2	1871.3
DOW JONES (Base: Dec. 31 1974 = 100)				
Spot	129.58	131.34	129.31	138.24
Futures	130.06	130.14	129.77	139.20

COPPER 25,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Nov	112.65	109.25	114.00	112.00
Dec	111.15	109.80	112.90	111.00

CRUDE OIL (Light) 42,000 US galls $/barrel				
	Latest	Previous	High/Low	
Dec	20.08	20.10	20.19	19.98
Jan	19.83	19.79	19.88	19.72
Feb	19.63	19.61	19.69	19.55
Mar	19.50	19.46	19.54	19.42
Apr	19.36	19.33	19.40	19.31
Jun	19.13	19.07	19.13	19.11
Jul	18.99	18.55	18.99	18.95
Sep	18.81	18.76	18.81	18.79

HEATING OIL 42,000 US galls, cents/US galls				
	Latest	Previous	High/Low	
Dec	5990	5968	6040	5940
Jan	5965	5935	6010	5920
Feb	5885	5831	5900	5825
Mar	5630	5598	5665	5600
Apr	5410	5361	5420	5390
May	5240	5178	5240	5195
Jun	5095	5051	5105	5050
Jul	5080	5008	5080	5080

COCOA 10 tonnes;$/tonnes				
	Close	Previous	High/Low	
Dec	965	984	973	961
Mar	979	978	987	970
May	989	986	998	985
Jul	1001	998	1008	997
Sep	1015	1018	1025	1015
Dec	1047	1044	1048	1044
Mar	1076	1069	0	0

COFFEE "C" 37,500lbs; cents/lbs				
	Close	Previous	High/Low	
Dec	75.73	76.24	76.75	75.20
Mar	77.70	78.31	78.60	77.23
May	79.63	80.13	80.25	79.10
Jul	81.75	82.05	82.25	81.15
Sep	83.56	84.25	84.25	83.05
Dec	86.75	86.63	86.90	86.25
Mar	88.50	89.38	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Jan	14.40	14.02	14.20	14.20
Mar	14.79	14.39	14.85	14.65
May	14.52	14.16	14.58	14.39
Jul	14.24	13.91	14.32	14.15
Oct	13.69	13.43	13.73	13.60
Mar	13.05	12.83	13.10	12.86

COTTON 50,000; cents/lbs				
	Close	Previous	High/Low	
Dec	74.70	74.77	75.30	74.35
Mar	76.54	76.45	76.90	76.05
May	76.95	76.80	77.30	76.55
Jul	77.00	76.92	77.20	76.75
Oct	70.10	70.05	70.25	69.85
Dec	67.11	67.00	67.30	66.90
Mar	67.75	67.50	0	0

ORANGE JUICE 15,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Nov	129.45	129.00	129.50	128.75
Jan	124.45	122.85	124.60	121.60
Mar	124.90	123.30	125.00	121.80
May	125.30	124.10	124.70	123.50
Jul	125.90	125.05	124.90	124.60
Sep	126.15	125.40	0	0
Nov	125.35	124.85	0	0
Mar	125.35	124.86	0	0

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel				
	Close	Previous	High/Low	
Nov	564/2	564/4	567/0	563/4
Jan	578/2	577/6	580/6	577/0
Mar	590/6	590/4	593/2	589/4
May	600/0	600/0	603/0	599/4
Jul	607/4	606/4	610/2	606/6
Aug	607/4	606/4	609/4	607/0
Sep	596/0	593/0	597/2	593/2

SOYABEAN OIL 60,000 lbs; cents/lb				
	Close	Previous	High/Low	
Dec	19.29	19.20	19.35	19.18
Jan	19.55	19.43	19.57	19.41
Mar	19.96	19.84	19.98	19.83
May	20.33	20.21	20.36	20.20
Jul	20.65	20.52	20.65	20.50
Aug	20.67	20.57	20.80	20.60
Sep	20.70	20.62	20.85	20.70
Oct	20.85	20.72	20.95	20.85

SOYABEAN MEAL 100 tons; $/ton				
	Close	Previous	High/Low	
Dec	181.7	182.8	182.8	181.6
Jan	180.7	181.4	181.5	180.5
Mar	180.0	180.9	181.0	179.9
May	179.1	179.5	180.2	179.0
Jul	179.0	179.3	179.6	178.7
Aug	178.0	178.2	179.3	178.0
Sep	178.0	178.7	179.0	178.0
Oct	178.0	178.3	179.0	178.0

MAIZE 5,000 bu min; cents/56lb bushel				
	Close	Previous	High/Low	
Dec	238/0	238/2	239/4	237/6
Mar	241/4	241/6	242/6	241/2
May	245/2	245/6	246/6	245/0
Jul	249/0	249/2	250/4	248/4
Sep	242/0	243/0	243/4	242/0
Dec	238/6	239/4	240/0	238/4

WHEAT 5,000 bu min; cents/60lb-bushel				
	Close	Previous	High/Low	
Dec	405/2	406/0	406/0	402/6
Mar	409/0	409/0	409/0	405/6
May	387/0	385/6	387/0	384/0
Jul	357/2	355/2	357/2	354/0
Sep	362/2	359/4	362/4	359/4

LIVE CATTLE 40,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Dec	74.52	74.47	74.82	74.00
Feb	74.17	74.02	74.22	73.60
Apr	74.25	74.07	74.30	73.80
Jun	71.27	71.20	71.37	71.00
Aug	69.55	69.45	69.75	69.50
Oct	68.80	68.72	68.80	68.65

LIVE HOGS 30,000 lb; cents/lbs				
	Close	Previous	High/Low	
Dec	48.32	47.72	48.40	47.45
Feb	48.20	47.47	48.32	47.30
Apr	44.87	44.47	44.30	44.42
Jun	48.86	48.50	48.85	48.35
Jul	49.22	48.67	49.25	48.57
Aug	47.82	47.50	47.85	47.25
Oct	43.50	43.50	43.60	43.46

PORK BELLIES 40,000 lbs; cents/lb				
	Close	Previous	High/Low	
Feb	61.55	59.55	61.55	59.50
Mar	61.07	59.15	61.12	58.95
May	60.37	58.56	60.40	58.95
Jul	59.15	57.50	59.35	57.50
Aug	57.10	56.57	57.60	56.45

LONDON STOCK EXCHANGE

Blue chips rally after uncertain start

LONDON'S EQUITY market fought back from a poor opening and generally unhappy morning session to finish with a *flourish* and good gains overall as Wall Street came in better than expected in early dealings and sterling maintained its recent good showing. Adding to a better mood overall was a small increase in the level of business activity yesterday.

Share prices opened on a dull note, but generally better than many London traders had expected. Prices began to edge higher as institutions placed small amounts in the market, encouraged by a growing feeling that interest rates may have topped, and with sterling steady.

Account Dealing Dates

First Dealings	Option Declarations	Last Dealings	Account Day
Oct 30	Nov 9	Nov 10	Nov 20
Nov 13	Nov 23	Nov 24	Dec 4
Nov 27	Dec 7	Dec 8	Dec 18

*New time dealings may take place from 9.00 am two business days earlier

Business activity tailed off around lunchtime, accompanied by a decline in share prices, before a rather tentative opening on Wall Street was followed by a modest but sustained rally there which, in turn, triggered a similar move in London which eventually closed at the day's best levels.

The FT-SE 100-share index, having opened 7 points lower at 2,162.6, was at its worst – down 7.9 – within 20 minutes of the official start of business, but it picked up strongly during the afternoon to end with a gain of 8.6 at 2,178.2. Turnover, totalling 416.9m shares, easily outpaced Monday's 330.3m.

In an overall market view, one top strategist commented:" Therecent underperformance of London has already worked in our favour, along with sterling which has in turn capped money market rates." Behind the good performance of London yesterday, he said, was the realisation that following the bid-driven stories of Jaguar and DRG, there was the recognitiopn that companies themselves are looking to head off potential raiders, "Witness British & Commonwealth and Courtaulds."

Leading the way yesterday were composite insurance stocks which gave an immediate response to a report that US insurance companies are about to increase premiums in the wake of Hurricane Hugo and the San Francisco earthquake. Insurance brokers were also said to have responded to the prospects of higher US insurance rates.

Among individual issues, Morgan Grenfell shares seesawed, improving strongly at the outset but plunging during the afternoon on the news that BZW has withdrawn from merger discussions with the UK merchant bank regarded as being under seige from Banque Indosuez.

Property shares were again well supported, dealers citing lessening worries about the immediate course of interest rates in the UK, the shares' recent underperformance and an influx of foreign money in the sector. Gold mining shares, among which Hanson is now a prominent producer, were in demand as the metal price continued to move ahead.

FINANCIAL TIMES STOCK INDICES

	Nov 7	Nov 6	Nov 3	Nov 2	Nov 1	Year Ago	1989 High	1989 Low	Since Compilation High	Since Compilation Low
Government Secs	84.06	84.02	83.75	83.87	84.43	88.69	89.29 (8/2)	83.75 (14/6)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	93.62	93.31	93.29	93.30	93.54	97.39	99 59 (15/3)	93.20 (18/10)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary Share	1753.8	1747.0	1746.4	1731.3	1738.1	1491.0	2008.6 (5/9)	1447.8 (3/1)	2008.6 (5/9/89)	49.4 (26/6/40)
Gold Mines	245.2	234.2	231.5	220.3	221.7	174.8	245.2 (7/11)	154.7 (17/2)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2178.2	2169.6	2173.1	2154.1	2160.1	1840.6	2426.0 (5/9)	1782.8 (3/1)	2443.4 (16/7/87)	986.9 (23/7/84)
Ord. Div. Yield	4.71	4.73	4.73	4.77	4 76	4.70				
Earning Yld %(full)	11.34	11.36	11.37	11.45	11.43	11.82				
P/E Ratio(Net)(☆)	10.66	10.64	10.64	10.56	10.57	10.24				
SEAQ Bargains(5pm)	21,437	26,811	21,202	20,184	22,126	23,502				
Equity Turnover(£m)†	-	674.89	806.94	853.47	902.24	991.45				
Equity Bargains†	-	20,313	20,788	19,684	21,958	24,389				
Shares Traded (ml)†	-	302.0	307.7	304.6	318.2	376.1				

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold mines 12/9/55. Basis 1000 FT-SE 100 31/12/83. ☆ Nil 10.57

Ordinary Share Index, Hourly changes Day's High 1753.8 Day's Low 1741.9

Open	10 a.m.	11 a.m.	12 p.m.	1 p.m.	2 p.m.	3 p.m.	4 p.m.
1742.4	1746.2	1744.9	1744.0	1744.9	1745.1	1745.8	1752.2

FT-SE, Hourly changes Day's High 2178.2 Day's Low 2161.7

Open	10 a.m.	11 a.m.	12 p.m.	1 p.m.	2 p.m.	3 p.m.	4 p.m.
2162.6	2165.9	2163.4	2164.8	2166.5	2167.1	2168.5	2176.9

GILT EDGED ACTIVITY

Indices*	Nov 6	Nov 3
Gilt Edged Bargains	79.0	95.5
5-Day average	90.5	90.6

*SE Activity 1974. †Excluding intra-market business & Overseas turnover. Calculation of the FT indices of daily Equity Bargains and Equity Value and of the five-day averages of Equity Bargains and Equity Value, was discontinued on July 31. Closing values for July 28 available on request. ◆ Corrected figure. London report and latest Share Index. Tel 0898 123001.

Morgan centre stage

Morgan Grenfell once more hogged the limelight in the banking sector. The small increase in its share price disguised a day of sharp oscillations as an announcement that the merchant bank was no longer talking to its main potential suitor, BZW, more than cancelled out earlier hopes of a bid battle with French stakeholder, Banque Indosuez.

The shares had peaked at around 485p, but Smith New Court cut its offer price to 435p on the announcement. The backwardation lasted for several minutes as the price bounced and tried to find a level. Turnover expanded to a strong 6.1m shares as the price eventually steadied to end a net penny higher at 469p.

Cynical marketmakers suggested that the state of affairs last night was all that Morgan's management could have hoped for: the share price was above the 462p option held by Indosuez on a 9.8 per cent block of Morgan owned by insurance broker Willis Faber. Others felt that Morgan's "For Sale" sign would soon flush out a new white knight.

Iceland downgraded

Iceland Frozen Foods fell sharply following a downgrading by Hoare Govett and Charterhouse Tilney, the company's joint brokers. Hoare and Charterhouse lowered their estimated pre-tax profits for the current financial year to £35m from £37m. Next year they expect an even larger decline in profits: £42m against the £47m previously forecast.

High interest rates are seen by the analysts as the main reason for a lower profit. At 60 per cent, Iceland's gearing is higher than most other food retailers, and its borrowing has not been hedged with interest rate caps, the analysts said. Furthermore, the integration of Bejam into its operations has also caused difficulties for Iceland's new distribution network.

Mr Andrew Fowler, retail analyst at Charterhouse Tilney, said: "High interest rates are biting quite deeply. It's also obvious that Iceland is not going to cure its distribution problems immediately. The problem is one of growing pains. It's not often in retailing you get a small company doubling or trebling in size this quickly."

Other analysts also lowered their profit forecasts. Kitcat & Aitken cut its forecast to £35m from £37m for this year and to £41m from £45m next. Iceland shares closed down 39 at 280p and its market capitalisation dropped to £238m from £271m on Monday.

The merchant and clearing banks were relatively unaffected by the activity in Morgan Grenfell. The exception was Barclays, weak in the wake of the announcement that talks between subsidiary BZW with potential takeover target Morgan had been broken off. The share eventually recovered from the low of 467p to limit the day's loss to a penny at 474p.

The planned sale of Gartmore by British & Commonwealth initially helped the latter's shares. They touched 130p bid at one point before fears that, as one dealer put it: "B & C is selling the family silver," pulled the price back to 125p, still a net 6 better on the day. A 150 per cent jump in profits at the interim stage from Henderson Administration pushed the shares 25 ahead to 690p.

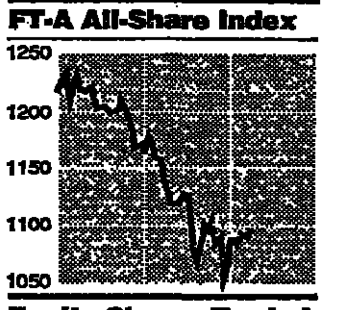
Life insurances were left behind as the composites and brokers raced ahead on US press suggestions that commercial insurance premiums would rise significantly.

Mr Michael Hesketh at Warburg Securities said that the report had credibility, not least because it involved a subsidiary of the broker Sedgwick which had a good track record of anticipating changes in premiums. He said that Royal Insurance was best placed to benefit because is it had a high US profile, especially in the commercial sector. The shares climbed 12 to 473p.

Next came General Accident, also strong in the US although less skewed to the commercial side. They put on 16 at 1036p. Then came Commercial Union, 9 better at 460p, followed by Sun Alliance and Guardian Royal, only a penny or two up at 288p and 219p respectively.

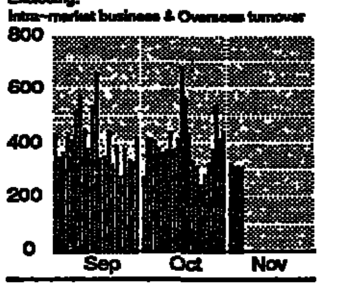
Mr Chris Pountain at Morgan Stanley took a cautious view of the price rises. "It's one thing to try to increase rates, and another to get the rate increase through and keep the loyalty of your customers," he said. "There is still plenty of capacity on the industry." He nevertheless maintained his positive view of the sector, saying that good yields and asset values make for defensive companies that should outperform.

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million)
Excluding:
Intra-market business & Overseas turnover



Brokers to show significant gains included Sedgwick, 6 better at 279p, CE Heath 8 firmer at 498p and Hogg Robinson closing 5 to the good at 155p.

Thoughts that the gold price would continued its upward trend helped Hanson, Lonrho and RTZ. They advanced 5¼ to 218p, 5 to 270p, and 8 to 536p respectively. Interest in Hanson was also stimulated by the prospect of the forthcoming figures, said dealers, and continuing vague suggestions that the company might bid for Grand Metropolitan, up 7½ to 520½p.

US fans of Reuters continued to tread warily in the light of the sale of rival Telerate. Reuters shed 11 at one point but ended 5 off at 894p.

Storehouse weakened as dealers considered what might be revealed with the interim figures tomorrow. Some said that the question was whether the company would maintain a dividend in the face of possible losses, while others felt that the price was supported by bid speculation with many shareholders unconcerned with yield or any other fundamentals. The shares fell 6 to 106p in steady turnover of 2.1m. Storehouse was also sought in the traded options market where contracts worth the equivalent 1.6m shares changed hands.

The revelation of losses at Tie Rack left the shares at 46p, down 8 on the day. Many of Tie Rack's stores are in surface rail and underground stations, leading some in the market to suggest that the company had suffered in the transport strikes. USM-quoted Sock Shop slipped in sympathy, closing 2 off at 91p.

Analysts dissected Monday's retail sales figures and found a 22 per cent improvement in jewellery sales. Ratners dominates the market and its market share is increasing. The shares added up to a rise of 6 in Ratners' price to 269p. Mr Michael Heery, analyst at Shearson Lehman, said that the figures justified the rise.

The food retailing sector was quiet awaiting the release of Sainsbury's interim results today. Analysts expect pre-tax profits of between £215m and £220m. Sainsbury closed up 4 at 281p. Tesco added 3 to 190p.

The property sector moved higher on the continuing shortage of stock and a belief that UK interest rates have peaked. The long-running speculation of a US takeover of one of the middle-ranking UK property firms also lifted prices. Land Securities closed up 5 at 518 and MEPC gained 7 to 499p.

The building and construction sectors were supported by a shortage of stock. McCarthy & Stone bounced back after its recent losses to close up 10 at 117p.

Mr Jack Summerscale, who heads the electricals team at BZW, trimmed his forecast for Cable and Wireless profits for the current year to £550m – the middle of the market range, according to dealers. The move was enough to knock 4 off the shares which closed at 491p.

Fairey moved up 10 to close the day at 194p. Mr Pete Deighton, analyst at County NatWest WoodMac, said: "The price has been partly moved by focus on the company ahead of a broker's visit on Friday, and partly because it is in an area similar to Ross Catherall which was taken out by Vickers at 18.8 times, whereas Fairey now stands at 7.8 times."

The news that Dowty had won a £6m development contract for the control system of the European fighter aircraft, was received positively by the market with the shares moving up strongly to close 8 higher at 235p. The development contract is expected to lead to an £80m contract to build the system.

Kitcat & Aitken, which yesterday issued a "buy" recommendation on Dowty said: "Three years of radical restructuring has positioned Dowty in business areas with high growth potential. Among UK aerospace manufacturers the company is one of the most exposed to the high growth civil sector."

Hillsdown recovered slightly after the fall on Monday over worries about a virus that has allegedly damaged poultry flocks. Despite yesterday's small gains, traders remained nervous that further newspaper reports could still spark off a scare over chicken consumption. Hillsdown closed up 2 at 262p.

Booker remained firm after institutions were encouraged by their visit earlier in the week. Booker closed up a penny at 417p. Berisford International was boosted by takeover talk. The speculation focused on Associated British Foods, which holds just under 24 per cent of Berisford. Mr Larry Goodman, the Irish businessman, who holds 9 per cent, was also mentioned. However, dealers said they doubted the accuracy of the speculation and said the price had also been boosted by a shortage of stock. Berisford closed up 5 at 145p. AB Foods closed up 5 at 390p following a buy recommendation by Warburg Securities.

James Capel's positive rating of many of the electronics stocks circulated on Monday continued to help Hawker Siddeley, with Hawker shares up another 11 at 628p, for a two-day gain of 15. It also helped GEC firm 4 to 234p.

In spite of some of its factories being strike bound, as trade unions continue to press their claim for a 35 hour week, British Aerospace was lifted by the news that American Airlines had signed an order for six more Airbuses, with an option for six more, for which BAe builds the wings, to be delivered in 1991. The company also said that UTA, the French airliner had also put in an order. BAe shares rose 7 at 541p.

Caparo Automative Group, controlled by Mr Swraj Paul, moved a step closer to total victory in its takover battle with Armstrong Equipment, by buying another 17.4 per cent of the company.

Caparo said it had received acceptances for 11.1 per cent of the shares, and had also picked up the 6.3 per cent stake owned by JH Fenner. Some 16m Armstrong shares were traded, including a block of 3.3m shares earlier on in the day. Caparo now owns 46.7 per cent of Armstrong shares. Armstrong closed up 6 at 183p, while JH Fenner ended 9 better at 163p.

The oil and gas sector did little more than tick over in very thin trading. Dealers said investors were holding off ahead of the crucial third-quarter figures expected tomorrow from BP and Shell. The former are expected to come up with replacement cost net income in the range of £240m-£280m (historic cost £200m-£240m compared with £230m), against £280m in the same period last year, while Shell are expected to announce replacement cost net income of between £680m to £950m(historic £650m to £900m), compared with £745m.

British Gas slipped 1½ to 186⅞p on turnover of 5m after a BZW sell recommendation. Burmah came in for a bout of profit-taking, closing 7 off at 683p but turnover was slim at 393,000 shares. Calor, linked with Burmah via the SHV holdings in both companies, eased 2 to 432p.

Premier, where Burmah has a 29.9 per cent stake and SHV a holding of around 4 per cent, were held back by a sell note issued by Nomura. The Japanese broker's oil team said: "The downside risk of Burmah placing its 29.8 per cent holding now outweighs any upside potential arising from a possible bid. However the complex SHV/Burmah/Calor situation is assessed, a placing of the Premier shares seems increasingly likely, not least in view of Burmah's September statement to the effect that divestment of the stake is inevitable."

■ Other market statistics, including FT-Actuaries Share Index and London Traded Options, Page 26

NEW HIGHS AND LOWS FOR 1989

NEW HIGHS (28).

BRITISH FUNDS (1) Treas. 2pc IL 1990, BANKS (2) Morgan Grenfell, Schroders, BUILDINGS (1) Smart (J.), ELECTRICALS (1) Ross Cons. Elect., FOODS (1) Batleys, TRUSTS (1) Drayton Far East., MINES (22) Cluff Res., Deelkraal, Doornfontein, Driefontein, Elandsrand Gld., Elsburg, F.S. Cons. Gold, Gold Fields S.A., Hartebeest, Kidston Gold Mines, Kloof Gold, Leslie, Randfontein Ests., Southvaal, St. Helena, Stilfontein, Unisel, Vaal Reefs, Welkom Gold, Western Areas, Western Deep, Winkelhaak.

NEW LOWS (58).

AMERICANS (9) Amdahl, Bethlehem Steel, Brunswick, Chrysler, Data General, Ford Motor, IBM, TRINOVA, Texas Instr., CANADIANS (1) Varity, BREWERS (1) Elderidge Pope "A", BUILDINGS (3) Ball (AH), Giles & Dandy, CHEMICALS (1) Akzo, STORES (5) Empire Stores, Euro Home Prods., Storehouse, Tie Rack, Usher (F.) ELECTRICALS (4) Arlen, Hewlett-Packard, Kode Int., Utd. Scientific, ENGINEERING (1) Chemring, HOTELS (1) Mt. Charlotte, INDUSTRIALS (5) Bridport-G., Coloroll, Grampian, Sale Tilney, Westmex, MOTORS (2) BTS, Plaxton, NEWSPAPERS (1) Hobsons Pub., PROPERTY (3) Cussins Prop., Moorfield Ests., UK Land, TRUSTS (2) Guildhouse Grp. Wrrnts., Parambe.

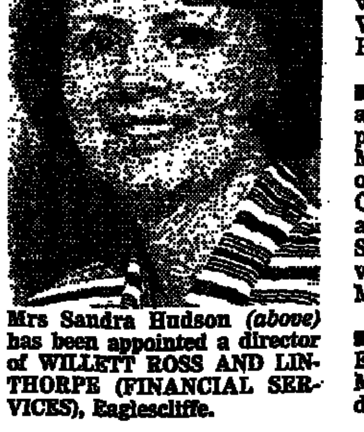
TRADING VOLUME IN MAJOR STOCKS

The following is based on trading volume for most Alpha securities dealt through the SEAQ system yesterday until 5 pm.

Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change
ASDA Group	2,400	139	+1	Courtaulds	415	352	-4	LASMO	695	521	-5	Saatchi & Saatchi	694	336	+2
Abbey National	2,890	148½	+½	Dalgety	158	376	+1	Lonrho	2,600	270	+5	Sainsbury	665	281	+4
Allied-Lyons	1,600	453	+4	Dixons	546	108	-1	Lucas	697	566	-6	Scott & Newcastle	1,100	347	-1
Amstrad	585	46		Eng. China Clays	340	401	+2	MB Group	1,309	191½	+1½	Sears	737	109	
Argyll Group	3,500	220	+2	Enterprise Oil	192	682	-5	MEPC	341	499	+7	Sedgwick	2,330	279	+6
Ass. Brit. Foods	799	390	+5	Fisons	873	329	-1	Marks & Spencer	1,700	193	-1	Shell Transport	3,400	423½	+1
BAA	1,500	356	+3	General Accident	1,100	1036	+16	Maxwell Comm.	1,300	227		Siebe	615	559	-1
BAT Inds.	1,300	755	-1	General Elect.	4,700	234	+4	Mecca Leisure	2,300	159	+3	Slough Ests	559	296	+2
BET	711	263		Glaxo	933	1458	-2	Midland Bank	918	329	+5	Smith & Nephew	192	134	+½
BICC	931	463	-5	Globe Inv.	249	179½		NatWest Bank	1,700	308	+4	SmithKline Beecham	966	540	-5
BOC	810	493	+4	Glynwed Int.	1,300	236	+2	Next	1,500	99	-1	Smiths Industries	233	257	-1
BPB Inds.	396	228	-1	Granada	327	389	+2	Northern Foods	99	297	+1	Standard Chartered	230	438	
BTR	1,300	430	+7	Grand Met.	1,200	520½	+7½	Pearl	165	634		Storehouse	2,100	106	-6
Barclays	2,900	474	-1	GUS A	82	1014	-8	Pearson	516	629		Sun Alliance	4,600	229	+2
Bass	115	956	+2	GRE	1,700	239	+1	P & O	709	576	-5	T&N	749	189	-1
Blue Circle	355	260	-1	GKN	452	387	-1	Pilkington	391	215		TI Group	277	419	+1
Boots	978	266½	+½	Guinness	2,300	597	-7	Polly Peck Intl.	1,400	329	-1	TSB	2,400	113	-2
Brit. & Comm.	1,200	125	+6	Hammerson 'A'	181	761	+1	Prudential	1,100	194	+1½	Tarmac	813	245	+1
Brit. Aerospace	741	541	+7	Hanson	7,300	218	+5¼	RHM	350	432	-2	Tate & Lyle	701	367	+3
British Airways	1,200	193	-1	Harrisons & Cros.	694	152	+3	RMC	195	639		Taylor Woodrow	766	269	-4
British Gas	5,600	187	-1	Hawker Siddeley	1,600	628	+12	RTZ	1,500	536	+8	Tesco	4,700	190	+3
British Land	67	322	+5	Hillsdown Hldgs.	2,500	262	+2	Racal	5,200	224	+4	THORN EMI	347	747	-1
BP	3,800	298½	+½	IMI	435	216		Rank Org.	379	815	-3	Trafalgar House	409	339	-1
British Steel	4,700	127	+1	ICI	683	1089	+6	Reckitt & Colman	42	1146	+6	Trusthouse Forte	630	299	+4
British Telecom	5,500	252½	+2	Inchcape	411	288		Redland	329	526	+3	Ultramar	651	332	-1
Burmah Oil	417	683	-7	Jaguar	2,100	829	+1½	Reed International	548	437	+1	Unilever	801	635	-3
Burton	350	195		Kingfisher	471	282	-1	Reuters	512	894	-5	United Biscuits	543	356	+1
Cable & Wireless	468	491	-4	Ladbroke	2,300	296	+7	Rolls Royce	1,700	164	+1	Utd. Newspapers	567	451	-2
Cadbury Schweppes	794	341		Land Securities	650	518	+5	Rothmans	400	663	-11	Wellcome	751	670	-2
Carlton Comms.	130	784	-2	Laporte	427	463	-4	Royal Bk of Scotland	1,500	164	+1	Whitbread 'A'	364	352	+3
Commercial Union	2,000	460	+9	Legal & General	396	366	+2	Royal Insurance	2,300	473	+12	Williams Hldgs.	639	225	+2
Cookson	988	290	-3	Lloyds Bank	548	382	+4	STC	397	272	-2	Wimpey	1,300	225	

APPOINTMENTS

■ Mr Hans Liesner has been appointed as a deputy chairman of the MONOPOLIES AND MERGERS COMMISSION for three years from September 21 1989. The appointment as a deputy chairman of Mr David Richards has been extended until February 28 1990. Mr Liesner has been a member of the Commission since April 1989. From 1976 to March 1989 he was a deputy secretary and chief economic adviser at what is now the Department of Trade and Industry. In 1984 he took over responsibility for all competition policy matters in DTI. Mr Richards was a senior partner in Deloitte, Haskins & Sells until 1984. He has been a member of the Commission since January 1983.



Mrs Sandra Hudson *(above)* has been appointed a director of WILLETT ROSS AND LINTHORPE (FINANCIAL SERVICES), Eaglescliffe.

Senior posts at P&O

THE PENINSULAR AND ORIENTAL STEAM NAVIGATION COMPANY has made the following appointments.

Mr Tim Harding, managing director of P&O Properties International, has been appointed to the main board, becoming responsible for the group's worldwide commercial property investments and developments. He will become managing director of P&O Property Holdings, succeeding Mr Tony England, on January 1. Mr England, who is leaving to develop family business interests, will remain on the board of P&O Property Holdings as a non-executive director.

Mr Martin Saunders, group chief accountant, has been appointed finance director of P&O from December 10, succeeding Mr Andrew Robb who is joining the board of Pilkington.

■ Mr Dennis Exton has joined MERRILL LYNCH's European research department in London as European technology specialist. He was with UBS Phillips and Drew.

■ Mr Philip Ridal has been appointed finance director of DEVELOPMENT AND REALISATION TRUST. He was finance director of Waterglade International Holdings.

■ Mr David Shaffer has been appointed executive vice president of THE MAXWELL MACMILLAN GROUP. He is on the board of Maxwell Communications Corporation, and Macmillan, Inc. Mr Sheldon Aboff becomes group vice president with Maxwell Macmillan.

■ FAIRCLOUGH CIVIL ENGINEERING has appointed Mr A.W. Bullock as business development director.

■ Mr Michael Webster has been appointed managing director of THE PHOENIX TIMBER CO. He was on the board of Harcros Timber & Building Supplies (South East).

■ At HAYMILLS (CONTRACTORS) Mr John Woodhouse relinquishes the post of managing director, but continues as chairman. Mr Colin Harvey, deputy managing director, becomes joint managing director with Mr Robert Butler.

■ FORD MOTOR CO has appointed Mr Colin Breathwick as director of fleet sales. He was marketing programmes manager for Ford of Europe.

■ Mr Charles S. Cooper has been appointed managing director of COMMONWEALTH RISK SERVICES (EUROPE). He was with American International Underwriters (UK).

■ CHARTERHOUSE TILNEY has appointed Mr Ian Kirk as a director and head of its corporate finance department. He was a director of corporate stockbroking at County NatWest Wood MacKenzie.

■ Mr Tim Furse has been appointed managing director, soft drinks, at H.P. BULMER DRINKS. He was marketing director, Grand Metropolitan Brewing.

■ Mr Bill McGawley has been appointed operations director of the Newcastle upon Tyne plant of VICKERS DEFENCE SYSTEMS. He was operations director at TI Reynolds, Birmingham.

Mr R.A. Milliken *(above)* has been appointed group managing director, LAMONT HOLDINGS, from January 1. He is chief executive of the Belfast branch of the Investment Bank of Ireland.

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INSURANCES

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	Bid Price	Offer Price	+ or −	Yield Gross
Premium Life Assurance Co Ltd				
37-39, Perrymount Road, Haywards Heath 0444 458721				
American	120.0	127.0	----	—
Building Soc. Fd.	176.0	186.0	----	—
Balanced	273.0	288.0	−1.0	—
European	179.0	189.0	−3.0	—
GT Managed	183.0	193.0	−1.0	—
Gartmore Mngd.	125.0	132.00	−1.0	—
German	139.0	147.0	−2.0	—
Gilt	174.0	184.0	----	—
Global	49.0	52.0	----	—
High Inc.	106.0	112.0	----	—
International Equity	186.0	196.0	−3.0	—
Japan	276.0	291.0	----	—
Managed	55.0	58.0	−1.0	—
Property	298.0	314.0	----	—
R. W. Imperial Gold	148.0	156.0	----	—
UK Equity	312.0	329.0	−2.0	—
Pension Funds				
American	156.0	165.0	----	—
Building Soc. Fd.	179.0	189.0	----	—
Balanced	216.0	228.0	----	—
European	188.0	198.0	----	—
German	124.0	131.0	----	—
Gilt	152.0	160.0	----	—
International Equity	141.0	149.0	----	—
Japan	143.0	151.0	----	—
Managed	61.0	65.0	−1.0	—
Property	228.0	240.0	----	—
UK Equity	300.0	316.0	−1.0	—
Professional Life Assurance Co Ltd				
Frobisher Hse, Nelson Gate, Southampton 0703 232323				
Pensions Managed Fund	91.33	96.53	----	—
Pensions Cash Fund	81.37	85.65	----	—
Prolific Life & Pensions Ltd				
Stramongate, Kendal, Cumbria LA9 4BE 0539 733733				
Managed Fund see Balanced Growth Managed Fund				
Life Funds				

[illegible]

MANAGEMENT SERVICES

[illegible]

OFFSHORE AND OVERSEAS

GUERNSEY (SIB RECOGNISED)

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

IoM (SIB RECOGNISED)

[illegible]

LUXEMBOURG (SIB RECOGNISED)

[illegible]

SWITZERLAND (SIB RECOGNISED)

[illegible]

GUERNSEY (**)

[illegible]

JERSEY (**)

[illegible]

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[illegible]

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

1989 High	Low	Stock	Price £	+ or -	Yield Int.	Yield Red.
100	98	Exch 10¼pcCv '89	100	.....	–	–
101	99	Treas 13pc 1990‡‡	99½	+	13.06	14.69
133	124	Treas 2pc IL '90(84.6)	133	+	2.09	9.98
99	98	Exch 11pc 1990‡‡	98	+	11.11	14.39
101	99	Exch. 12½pc 1990	99	+	12.59	14.56
95	91	Treas. 3pc 1990	95	+	3.13	11.69
97	95	Treas 8¼pc 1987-90‡‡	96	.....	8.51	13.76
98	95	Treas. 8pc Cv 1990 ‡‡	96	+	8.30	13.62
98	96	Treas. 10pcCv 1990	96	+	10.31	13.45
93	87	Exch 2½pc 1990	92	.....	2.70	10.10
101	98	Treas 11¾pc 1991	98½	+	11.93	13.12
93¼	89	Funding 5¾pc '87-91‡‡	92	+	6.19	11.37
90	86	Treas 3pc 1991	90	+	3.31	9.84
100	95½	Treas 10pc Cv '91 ‡‡	96	+	10.38	12.48
101	96	Exch. 11pc 1991	97	+	11.27	12.40
94	91	Treas. 8pc 1991	92¼	+	8.67	12.34
106	100	Treas 12¾pc 1992‡‡	101	+	12.55	11.86
99½	95	Treas 10pc 1992	96	+	10.39	11.88
94	90	Treas. 8pc 1992 ‡‡	92	+	8.69	11.85
100¼	96	Treas 10½pc Cv 1992‡‡	97	+	10.78	11.72
85	82¼	Treas. 3pc 1992	84	+	3.55	9.87
105	100	Exch. 12¼pc '92	101	+	12.11	11.73
109¼	103	Exch 13½pc 1992	104	+	12.93	11.61
94	90	Treas 8¼pc 1993	91	+	9.04	11.50
100	95	Treas 10pc 1993‡‡	96	+	10.38	11.32
108¼	102	Treas 12½pc 1993‡‡	103	+	12.10	11.36
88	84	Funding 6pc 1993‡‡	86	.....	6.91	10.19
113¼	107	Treas 13¾pc 1993‡‡	107	+	12.75	11.27
94	89¼	Treas. 8½pc 1994	90	+	9.36	11.27
117	111	Treas 14½pc 1994‡‡	111	+	13.02	11.09
113	107	Exch 13½pc 1994	107	+	12.57	11.22
100	95	Treas. 10pc Ln. 1994‡‡	96	+	10.39	11.08
110¼	104	Exch. 12½pc 1994	104	+	11.95	11.21

Five to Fifteen Years

1989 High	Low	Stock	Price £	+ or -	Yield Int.	Yield Red.
96	91	Treas 9pc 1994‡‡	92	+	9.74	11.00
108	102	Treas 12pc 1995	103	+	11.63	11.16
79	72	Exch 3pc Gas 90-95	76		3.92	8.45
101	95	Exch. 10¼pc 1995	96	+	10.60	11.02
113	107	Treas 12¾pc 1995‡‡	107	+	11.81	10.91
119	112	Treas. 14pc '96	112	+	12.44	11.11
97	91	Treas. 9pc 1992-96‡‡	92	+	9.78	10.75
126	119	Treas 15¼pc 1996‡‡	119	+	12.76	10.96
117	110	Exch 13¼pc 1996‡‡	110	+	11.97	10.91
101	94	Conversion 10pc 1996	96	+	10.40	10.79
118	110	Treas 13¾pc 1997‡‡	111	–	11.88	10.87

[illegible]

BRITISH FUNDS—Contd

Over Fifteen Years

[illegible]

Undated

[illegible]

Index-Linked

[illegible]

INT. BANK AND O'SEAS

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

Building Societies

[illegible]

Public Board and Ind.

[illegible]

FOREIGN BONDS & RAILS

[illegible]

AMERICANS

[illegible]

Continued on next page

[illegible]

Money Market Trust Funds

[illegible]

Money Market Bank Accounts

[illegible]

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AMERICANS—Contd

1989 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
15¼	847p	Hasbro Inc 50c	15¼	.....	16c	–	0.7
57½	32¾	Honeywell $1½	51⅞xd	.....	$2.75	–	3.4
22⅞	15¼	Houston Inds ‖	22¼	–¼	$2.96	–	8.4
76⅛	60⅞	IBM Corpn $1¼	60⅞xd	–1⅛	$4.84	–	5.0
60p	45p	Image Storage/R Sys.1c	52p	+2	–	–	–
32⅛	18¼	Ingersoll-Rand $2	26¼xd	.....	$1.20	–	2.8
33¼	22½	Lockheed Crpn. $1	27xd	.....	$1.80	–	4.2
22⅞	15⅛	Lone Star Inds $1	16¼xd	–⅛	$1.90	–	7.5
27⅞	17½	Louisiana Land 15c	24½xd	–⅛	$1.00	–	2.6
20½	11½	Lowe's 50c	18⅝	.....	48c	–	1.6
28¾	15⅞	Manuf. Hanover $1	22⅞	–⅛	$3.28	–	9.1
22⅝	13⅞	Merrill Lynch $1	16⅞	–⅛	$1.00	–	3.7
2477p	1910p	Molex Inc.	2261p	–28	3.2c	–	–
30½	18⅛	Morgan (JP) $2½	25⅛xd	–⅛	$1.66	–	4.1
28⅞	24⅛	Morris (Philip)	25⅝xd	–1⅛	$1.13	–	2.8
54½	36⅛	NYNEX $1	48¼	–⅞	$4.36	–	5.7
44p	20p	N'wide Legal Serv. ‖	26p	.....	–	–	–
24⅞	18¼	PHH Corp. ‖	22½	–¼	$1.16	–	3.3
259p	179p	♦Pacific Agr. ‖	190p	.....	–	–	–
27¼	19	Pacificorp $3¼	26⅝xd	–½	$2.76	–	6.3
30¼	16⅞	Pacific Telesis 10c	26½	–⅛	$1.88	–	4.5
22⅞	15¼	Pall Corp. 25c	19⅞	+¼	48c	–	1.5
55⅛	39⅞	Pennzoil 83 1/3c	50¼xd	–1⅛	$3.00	–	3.8
42¼	28⅛	Quaker Oats $5	38⅛	–⅛	$1.40	–	2.3
32⅛	23½	Rep NY Corpn $5	29⅞xd	–⅞	$1.28	–	2.7
16⅝	11⅞	Rockwell Intl $1	14⅞xd	–⅛	78c	–	3.4
29½	22	Sears, Roebuck 75c	23⅝	–½	$2.00	–	5.4
37½	21⅝	Southwestern Bell $1	33⅞	+⅛	$2.60	–	4.9
27⅞	17⅞	Sun Co. Inc $1	24⅞xd	–⅛	$1.80	–	4.7
31¼	22⅞	TRW Inc. 62½c	29⅝	–⅛	$1.72	–	3.7
24⅞	14⅛	TW Services $5	20¼	.....	–	–	–
40⅛	26¼	Tenneco $5	35⅞	–1⅛	$3.04	–	5.4
35⅞	28	Texaco $6.25	32⅞xd	–⅛	$3.00	–	5.9
28⅞	19⅛	Texas Instr. $1	19⅛xd	–⅛	72c	–	2.4
117⅞	58⅝	Time Inc. $1	81⅞	–⅛	$1.00	–	0.8
19⅝	13¼	TPINOVA Corp.	13¼	–⅛	‡68c	–	3.1
26⅝	16	USX $1	21⅛xd	–⅛	$1.40	–	4.2
321p	126p	♦Unilab	288p	.....	–	–	–
36⅝	22⅛	Utd Technologies	32⅞xd	–⅛	$1.60	–	3.1
158p	121p	♦Utilitech Inc.	121p	.....	–	–	–
48¼	31½	US West ‖	43½	–⅞	$3.76	–	5.5
43⅛	22⅝	Waste Management $1	39⅛xd	–⅛	60c	–	1.0
20½	13½	Whirlpool $1	17⅞	..	$1.10	–	3.9
24⅛	16⅛	Whitman Corp.	17¼	–¼	$1.02	–	3.6
46⅝	28¼	♦Woolworth $3½	36¼	–1⅞	$1.88	–	3.2

CANADIANS

1989 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
178p	129p	♦ABM Gold Corp ‖	163p	.....	–	–	–
26p	4½p	♦Abbot Energy Corp	25½p	.....	–	–	–
17¼	902p	♦Amer. Barrick Res	17⅝	.....	–	–	–
30p	10½p	♦Armeno	29½p	.....	–	–	–
33½p	8½p	♦Augmitto Expln	14½p	.....	–	–	–
18⅛	12⅞	Bk. Montreal ‖	18⅛	–¼	$2.12	–	6.3
10⅛	655p	Bk. Nova Scot. ‖	955pxd	.....	92c	–	5.2
824p	599p	♦BC Gas $1	821p	.....	60c	–	4.0
23½	17	BCE ‖	22⅞	–⅛	$2.44	–	5.8
17	12⅛	♦Brascan ‖	14½	.....	88c	–	3.2
228p	108p	♦Breakwater Res	152p	.....	10c	–	3.6
17½	11⅛	Can. Imp Bank ‖	17¼	–⅛	$1.24	–	3.9
15¼	997p	Can. Pacific ‖	12¼	–¼	76c	–	3.1
41½	38	Do. 4pc Deb £100	38	.....	4%	–	10.5
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS – Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY AND STORES – Contd

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING – Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.) – Contd

[illegible]

INDUSTRIALS (Miscel.) – Contd

[illegible]

INSURANCES

[illegible]

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LEISURE

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PAPER, PRINTING, ADVERTISING — Contd

[illegible]

PROPERTY

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TEXTILES — Contd

[illegible]

TOBACCOS

[illegible]

TRANSPORT

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

TRUSTS, FINANCE, LAND — Contd

[illegible]

Finance, Land, etc

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS — Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

MINES — Contd

Tins

[illegible]

Miscellaneous

[illegible]

THIRD MARKET

[illegible]

46½	23	Wallgate Leisure 20p. γ	38½	......	-	-	-
32½	10	Do Wrnts.......... γ	25	......	-	-	-
10¼	5	Wilton Group 1p... γ	5¾	+¼	-	-	-

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- • Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ● Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially listed.
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- ♣ Not comparable
- ♠ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E usually provided.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1990. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date. Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xl ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p.... γ	87	......
Craig & Rose £1.. γ	830	......
Finlay Pkg. 5p.... γ	68	......
Holt (Jos) 25p..... γ	1343	......

IRISH

Cap. 8½% Ln. 1991...	£96¼	......
9pc Cap Ln. 1996..	£96¾	......
Fin. 13% 97/02...	£115½	......
Arnotts................	400	......
Carrol (P.J.)....... γ	145	......
Hall (R. & H.).......	160	......
Helton Hldgs....... γ	88	−2
IRG....................	227	......
United Drug..........	135	......

TRADITIONAL OPTIONS

3-month call rates

Industrials

	p
Allied-Lyons..........	41
Amstrad..............	6½
Astec (BSR)...........	5¾
BAT..................	67
BOC Grp..............	44
BTR..................	37
Barclays..............	40
Blue Circle...........	28
Boots.................	23
Bowaters..............	39
Brit Aerospace........	46
British Steel.........	9
Brit. Telecom.........	22
Cadburys..............	31
Charter Cons..........	42
Comm Union............	40
Courtaulds............	31
Eurotunnel............	65
FKI...................	8
FNFC..................	22
Gen Accident..........	92
GEC...................	19
Glaxo.................	120
Grand Met.............	44
Guardian..............	19
GKN...................	33
Hanson................	28
Hawker Sidd...........	55
ICI...................	90
Jaguar................	85
Ladbroke..............	25
Legal & Gen...........	31
Lex Service...........	26
Lloyds Bank...........	31
Lucas Inds............	54
Marks & Spencer.......	16
Midland Bk............	26
Morgan Grenfell.......	38
Nat West Bk...........	23
P & O Dfd.............	51
Polly Peck............	38
Racal Elect...........	28
RHM...................	39
Rank Org Ord..........	72
Reed Intnl............	34
STC...................	25
Sears.................	9
Smithkline Bchm. A....	48
TI....................	38
TSB...................	9
Tesco.................	16
Thorn EMI.............	63
Trust Houses..........	23
T&N...................	16½
Unilever..............	57
Vickers...............	22
Wellcome..............	55

Property

Brit Land.............	27
Control Secs..........	5
Land Securities.......	45
MEPC..................	45
Mountleigh............	13

Oils

Brit Petroleum........	25
Burmah Oil............	65
Charterhall...........	2½
Conroy Petm...........	9
Premier...............	10½
Shell.................	37
Tuskar Res............	12
Ultramar..............	28½

Mines

Lonrho................	23
RTZ...................	45

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CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar and pound drift down

THERE WERE no strong factors to move the foreign exchanges yesterday in a market lacking economic news from the main financial centres. The dollar and sterling drifted lower in quiet trading.

The dollar continued to suffer from nervousness created by Monday's sharp fall in share prices on Wall Street and from recent data showing weakness in the US manufacturing sector. This coupled with unexpected intervention by the Federal Reserve to add liquidity to the New York banking system yesterday - via $2bn of customer repurchase agreements - increased speculation about an easing of the Fed's monetary stance.

On the other hand the dollar's longer term trend appeared to be good, supported by the attraction of US assets to Japanese investors. Intervention to sell the dollar against the yen was seen from the Bank of Japan in Tokyo, as the US currency met demand from Japanese institutional investors. This partly reflected buying of the dollar ahead of the US Treasury auctions - due to take place this week, but delayed, pending the passage of a bill through Congress to raise the US debt ceiling - but it was also a sign that Japanese investors see opportunities in US property and other relatively cheap assets caused by a slow down in the economy.

At the close in Europe the dollar had fallen to Y143.40 from Y143.65; to DM1.8445 from DM1.8520; to SFr1.6175 from SFr1.6240; and to FFr6.2530 from FFr6.2775. According to the Bank of England the dollar's index fell to 69.8 from 69.9.

Sterling gained a little ground against the dollar, but weakened against other major currencies, including the D-Mark. Movements were largely technical however, with the market still regarding the pound as an expensive currency in which to run short positions because of the high level of London interest rates.

The market is looking for some further guidance on UK economic policy, following the resignation of Mr Nigel Lawson as Chancellor of the Exchequer, and awaits with some nervousness the Autumn Statement from Mr John Major, the new Chancellor. However, no significant change in policy direction is expected, and the main focus of attention is likely to be the next set of UK trade figures in the latter part of this month. Until then the pound is unlikely to come under any strong pressure.

Sterling gained 15 points to $1.5810, but fell to DM2.9150 from DM2.9250; to Y226.75 from Y227.00; to SFr2.5575 from SFr2.5650; and to FFr9.8850 from FFr9.9150.

The D-Mark remained relatively soft against its partners in the European Monetary System, as the West German Bundesbank indicated a wish to see a decline in short term interest rates in Frankfurt.

£ IN NEW YORK

Nov.7	Latest	Previous Close
£ Spot	1.5780-1.5790	1.5765-1.5775
1 month	0.87-0.86pm	0.80-0.78pm
3 months	2.57-2.54pm	2.41-2.38pm
12 months	8.57-8.47pm	8.30-8.20pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Nov.7	Previous
8.30 am	88.9	88.5
9.00 am	88.9	88.5
10.00 am	88.9	88.5
11.00 am	88.8	88.6
Noon	88.8	88.6
1.00 pm	88.8	88.5
2.00 pm	88.7	88.5
3.00 pm	88.6	88.6
4.00 pm	88.7	88.6

CURRENCY RATES

Nov.7	Bank rate %	Special* Drawing Rights	European † Currency Unit
Sterling §	-	1.23211	1.42071
U.S Dollar	7	1.27469	1.11402
Canadian $	12.46	1.49439	1.30451
Austrian Sch.	6½	16.5295	14.4677
Belgian Franc	10¼	49.2521	43.0846
Danish Krone	10½	9.12524	7.97134
Deutsche Mark	6.00	2.34636	2.05425
[illegible]	[illegible]	[illegible]	[illegible]

CURRENCY MOVEMENTS

[illegible]

OTHER CURRENCIES

[illegible]

EURO-CURRENCY INTEREST RATES

[illegible]

POUND SPOT- FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

[illegible]

EMS EUROPEAN CURRENCY UNIT RATES

[illegible]

EXCHANGE CROSS RATES

[illegible]

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES AND OPTIONS

LIFFE LONG GILT FUTURES OPTIONS; LIFFE US TREASURY BOND FUTURES OPTIONS; LIFFE BUND FUTURES OPTIONS; LIFFE £/$ OPTIONS; LIFFE EURODOLLAR OPTIONS; LIFFE SHORT STERLING OPTIONS; PHILADELPHIA SE £/$ OPTIONS

[illegible]

CHICAGO

U.S. TREASURY BONDS (CBT) 8%; JAPANESE YEN (IMM); DEUTSCHE MARK (IMM); U.S. TREASURY BILLS (IMM); THREE-MONTH EURODOLLAR (IMM); SWISS FRANC (IMM); STANDARD & POORS 500 INDEX; POUND-$ (FOREIGN EXCHANGE); IMM-STERLING

[illegible]

LONDON (LIFFE)

20-YEAR 9% NOTIONAL GILT; US TREASURY BONDS 8%; 6% NOTIONAL GERMAN GOVT. BOND; 6% NOTIONAL LONG TERM JAPANESE GOVT. BOND; THREE MONTH STERLING; THREE MONTH EURODOLLAR; THREE MONTH EUROMARK; THREE MONTH ECU

[illegible]

FT-SE 100 INDEX
£25 per full index point

	Close	High	Low	Prev.
Dec	2190.0	2190.0	2168.0	2184.0
Mar	2230.0	2217.0	2209.0	2224.0
Jun	2270.0			2264.0

Estimated volume 3930 (3761)
Previous day's open int. 31558 (31369)

EUROPEAN OPTIONS EXCHANGE

[illegible]

TOTAL VOLUME IN CONTRACTS : 53,004

A=Ask B=Bid C=Call P=Put

GRANVILLE

SPONSORED SECURITIES

High	Low	Company	Price	Change	Gross div (p)	Yield %	P/E
343	295	Ass. Brit. Ind. Ordinary	338	0	10.3	3.0	9.1
38	28	Armitage and Rhodes	29	0	-	-	-
210	149	Bardon Group (SE)	163	0	4.3	2.6	15.8
125	103	Bardon Group Cv. Pref. (SE)	103	0	6.7	6.5	--
123	77	Bray Technologies	77	0	5.9	7.7	6.8
110	105	Brenbill Conv. Pref	105	0	11.0	10.5	-
104	100	Brenbill 8¼% New C.C.R.P	104	0	11.0	10.6	-
305	285	CCL Group Ordinary	295	+1	14.7	5.0	3.6
176	168	CCL Group 11% Conv.Pref	173	0	14.7	8.5	-
225	140	Carbo Plc (SE)	210	0	7.6	3.6	12.4
110	109	Carbo 7.5% Pref (SE)	110	0	10.3	9.4	-
7.5	1.5	Magnet Gp Non-Voting A Cnv*	1.5sus	0	-	-	-
5	0.75	Magnet Gp Non-Voting B Cnv*	0.75sus	0	-	-	-
130	119	Isis Group	120	0	8.0	6.7	6.9
145	58	Jackson Group (SE)	102	0	3.6	3.5	11.9
322	261	Multihouse NV (AmstSE)	287	+2	-	-	-
158	98	Robert Jenkins	155	0	10.0	6.5	5.6
467	365	Scruttons	373	-2	18.7	5.0	9.9
300	270	Torday & Carlisle	299	0	9.3	3.1	10.4
117	100	Torday & Carlisle Cnv Pref	109	0	10.7	9.8	-
122	80	Trenian Holdings (USM)	80	0	2.7	3.4	8.6
150	106	Unistrut Europe Conv Pref	150	0	9.3	6.2	-
395	355	Veterinary Drug Co. Ltd	363	-2	22.8	6.1	9.4
370	323	W.S Yeates	323	0	16.2	5.0	26.9

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These securities are dealt in strictly on a matched bargain basis. Neither Granville & Co. Limited nor Granville Davies Limited are market makers in these securities
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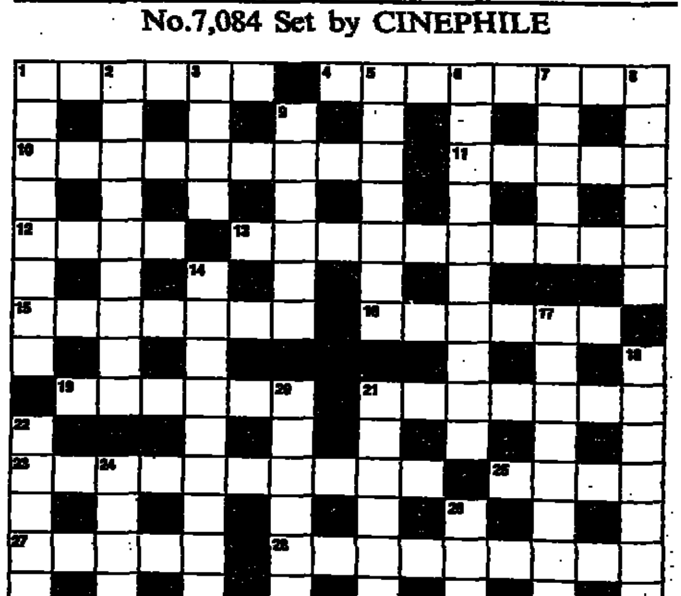
JOTTER PAD

CROSSWORD

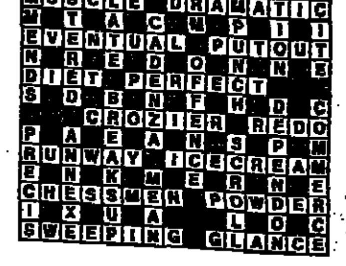
No.7,084 Set by CINEPHILE



ACROSS
1 Artist enters teashop for wine or water (6)
4 Punctilious person finds something with which to beat the French right (8)
10 Ile scamp turned out of position (9)
11 It may be fraudulent to accommodate (3,2)
12 Material for tennis (4)
13 Currency has power when girl's around in Venice (5,6)
15 Bird takes turn with bird which is tailless in name only (7)
16 Mary quietly in section (6)
19 Language used before and after clues (6)
21 Check lizard on television set (7)
23 The casual approach to succeed with girl? (3,3,4)
25 When to return and utter (4)
27 Irish rugby's contemptuous gesture (5)
28 Offer to speak in public (4,5)
29 Senior officer finds true effect of belt (5)
30 Cut fruit at start of day (8)

DOWN
1 Temple destroyed when small firm takes it over (8)
2 Perfumed spray from the can? (4-5)
3 Cutter in the office (4)
5 News of model upset in digs (7)
6 Piece of old Africa makes primate stop in Cyprus (4,6)
7 Language of dog tags? (5)
8 Stir caused by beheading of lame men (6)
9 Tallyman gets 20 right (6)
14 Unreliable but? (3-2-5)
17 Boat for beast with a lot of unfading flowers (9)
18 Drew badly when about to draw acidly, which is very sad (8)
20 Note most of Greek vase is in mothballs (7)
21 Obstinate beast keeps Scots in by force (6)
22 Medicine, chips cooked with last of gravy (6)
24 Italian city makes money without Babylonian one (5)
26 Fibers first rise in the distance (4)

Solution to Puzzle No.7,083



MONEY MARKETS

Bundesbank signal

THE WEST German Bundesbank sent a signal to the Frankfurt money market yesterday that short term interest rates are still too high. Dealers were surprised when the Bundesbank set a fixed rate tender at 7.30 per cent for a 28-day securities repurchase agreement tender.

The money will be needed to replace DM25.8bn draining from the banking system today as an earlier pact expires. In previous weeks the Bundesbank has offered a tender for 28 days at a fixed rate of 7.30 per cent, but has also offered three-month money at rates bid by the market. This has led to banks bidding above the 8 per cent Lombard emergency financing rate for these longer term funds.

UK clearing bank base lending rate
15 per cent
from October 5

The fact that the central bank has set this week's tender at a fixed 7.30 per cent was taken to indicate that it wants to see a further decline in call money away from the Lombard rate. Call money eased to 7.75 per cent yesterday from 7.80 per cent.

In London three-month interbank fell to 15⅛-15⅛ per cent from 15¼-15⅛ as sterling held fairly steady on the foreign exchanges. Trading was quiet with the downward trend led by movements on the futures market. Short sterling opened firmer at 85.16 on Liffe, and touched 85.18 before closing at 85.14, compared with 85.10 on Monday.

Credit conditions remained tight on the London money market, with the Bank of England forecasting a day-to-day credit shortage of £600m, but providing total help of only £509m. Before lunch the authorities bought £293m bills outright, by way of £4m local authority bills in band 2 at 14¾ per cent, and £289m bank bills in 2 at 14¾ per cent. In the afternoon the Bank of England bought another £216m bank bills in band 1 at 14⅞ per cent.

Bills maturing in official hands, repayment of late assistance and a take-up of Treasury bills drained £164m, with Exchequer transactions absorbing £480m, and bank balances below target £25m. These factors offset a fall in the note circulation adding £65m to liquidity.

In Brussels the Belgian National Bank raised the interest rate at yesterday's tender on four-month paper, issued by the Securities Regulation Fund, by 0.20 per cent to 9.85 per cent. Other short-term rates, including the three-month rate - the main instrument of monetary policy - were left unchanged.

FT LONDON INTERBANK FIXING

(11.00 a.m. Nov.7) 3 months US dollars		6 months US Dollars	
bid 8 11/16	offer 8 13/16	bid 8⅝	offer 8¾

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK (Lunchtime)

		Treasury Bills and Bonds			
Prime rate	10½	One month	7.49	Three year	8.02
Broker loan rate	9¾	Two month	8.30	Four year	7.97
Fed.funds	8¾	Three month	8.09	Five year	7.94
Fed.funds at intervention	8¾	Six month	8.09	Seven year	7.96
		One year	8.00	10-year	7.97
		Two year	8.02	30-year	7.96

Nov.7	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	7.70-7.80	7.90-7.95	8.25-8.35	8.30-8.40	8.25-8.35	8.00
Paris	9 15/16-10 1/16	10 3/16-10 5/16	10¼-10⅜	10⅜-10½	10 7/16-10 9/16	9.50
Zurich	6⅞-6⅞	7⅜-7½	-	7¾-8	-	-
Amsterdam	8.31-8.44	8.25-8.35	-	8.45-8.55	-	-
Tokyo	5 13/16-5 15/16	6 3/16-6⅜	-	6⅝-6 11/16	-	-
Milan	12¼-12¾	12⅝-12¾	-	12⅞-13⅛	-	-
Brussels	8.70	9 11/16-9 13/16	-	9 11/16-9 13/16	-	-
Dublin	9⅝-9¾	11 1/16-11 3/16	11⅜-11⅝	11¾-12	12¼-12⅝	-

LONDON MONEY RATES

Nov 7	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	15⅛	15	15 3/16	15⅛	15	14¾
Interbank Bid	14 15/16	14⅞	15	15	14⅞	14⅝
Sterling CDs.	-	-	15 1/16	15 1/16	14 15/16	14¾
Local Authority Deps.	14⅞	14⅞	15	15	14 15/16	14⅝
Local Authority Bonds	-	-	-	-	-	-
Discount Mkt Deps.	15	14¾	14¾	14⅞	-	-
Company Deposits	-	-	15⅛	15⅛	14 15/16	14½
Finance House Deposits	-	-	15	14 15/16	14⅞	14½
Treasury Bills (Buy)	-	-	14 13/16	14 13/16	-	-
Bank Bills (Buy)	-	-	14 13/16	14¾	13 15/16	-
Fine Trade Bills (Buy)	-	-	15⅜	15⅛	14⅞	-
Dollar CDs.	-	-	8.70	8.67	8.52	8.45
SDR Linked Dep. Offer	-	-	8 11/16	9 1/16	9⅛	9
SDR Linked Dep. Bid	-	-	8 9/16	8 13/16	8⅞	8¾
ECU Linked Dep. Offer	-	-	10 11/16	10¾	10 11/16	10⅝
ECU Linked Dep. Bid	-	-	10 7/16	10⅝	10 9/16	10½

Treasury Bills (sell); one-month 14 13/16 per cent; three months 14½ per cent; Bank Bills (sell); one-month 14¾ per cent; three months 14 11/16 per cent; Treasury Bills; Average tender rate of discount 14.5674 p.c. ECGD Fixed Rate Sterling Export Finance Make up day October 31 ,1989 . Agreed rates for period November 26 1989 to December 25 , 1989, Scheme I: 15.66 p.c., Schemes II & III: 16.22 p.c. Reference rate for period Sept 30,1989 to October 31 . 1989, Scheme IV&V: 15.084 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 15 from November 1 , 1989: Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 11½ per cent; one-three months 13 per cent; three-six months 13 per cent; six-nine months 13 per cent; nine-twelve months 13 per cent; Under £100,000 11½ per cent from Oct 9,1989 . Deposits withdrawn for cash 5 per cent.

BASE LENDING RATES

	%		%		%
ABN Bank	15	Clydesdale Bank	15	NatWestminster	15
Adam & Company	15	Comm.Bk.N.East	15	Northern Bank Ltd	15
Allied Trust Bank	15	Co-operative Bank	*15	Norwich Gen. Trust	15
Allied Irish Bank	15	Coutts & Co	15	PRIVATbanken Limited	15
● Henry Ansbacher	15	Cyprus Popular Bk	15	Provincial Bank PLC	16
Associates Cap Corp	14	Dunbar Bank PLC	15	R. Raphael & Sons	15
Authority Bank	15	Duncan Lawrie	15	Roxburghe G'rantee	15½
● B & C Merchant Bank	15	Equatorial Bank plc	15	Royal Bk of Scotland	15
Bank of Baroda	15	Exeter Trust Ltd	15½	Royal Trust Bank	15
Banco Bilbao Vizcaya	15	Financial & Gen. Bank	15	● Smith & Williams Secs.	15
Bank Hapoalim	15	First National Bank Plc.	16	Standard Chartered	15
Bank Credit & Comm	15	● Robert Fleming & Co.	15	TSB	15
Bank of Cyprus	15	Robert Fraser & Ptnrs.	15½	United Bk of Kuwait	15
Bank of Ireland	15	Girobank	15	United Mizrahi Bank	15
Bank of India	15	● Guinness Mahon	15	Unity Trust Bank Plc	15
Bank of Scotland	15	HFC Bank plc	15	Western Trust	15
Banque Belge Ltd	15	● Hambros Bank	15	Westpac Bank Corp.	15
Barclays Bank	15	Hampshire Trust Plc	15½	Whiteaway Laidlaw	15
Benchmark Bank PLC	15	Heritable & Gen Inv Bank	15	Yorkshire Bank	15
Brit Bk of Mid East	15	● Hill Samuel	§15		
● Brown Shipley	15	C. Hoare & Co.	15		
Business Mtge Bank PLC	15½	Hongkong & Shangh	15		
CL Bank Nederland	15	● Leopold Joseph & Sons	15		
● Charterhouse Bank	15	Lloyds Bank	15		
Citibank NA	15	Meghraj Bank Ltd	15		
City Merchants Bank	15	McDonnell Douglas Bnk.	15		
		Midland Bank	15		
		Mount Banking	15		
		Nat Bk. of Kuwait	15		

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WORLD STOCK MARKETS

AUSTRIA

[illegible]

BELGIUM/LUXEMBOURG

[illegible]

DENMARK

[illegible]

FINLAND

[illegible]

FRANCE

[illegible]

GERMANY

[illegible]

ITALY

[illegible]

NETHERLANDS

[illegible]

NORWAY

[illegible]

SPAIN

[illegible]

SWEDEN

[illegible]

SWITZERLAND

[illegible]

SOUTH AFRICA

[illegible]

JAPAN

[illegible]

AUSTRALIA

[illegible]

HONG KONG

[illegible]

SINGAPORE

[illegible]

NOTES — Prices on this page are as quoted on the individual exchanges and are last traded prices. (u) Unavailable. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

CANADA

TORONTO
2pm prices November 7

Quotations in cents unless marked $.

[illegible]

t — No voting rights or restricted voting rights.

INDICES

NEW YORK

DOW JONES	Nov. 6	Nov. 3	Nov. 2	Nov. 1	1989 HIGH	1989 LOW	Since compilation HIGH	Since compilation LOW
♦Industrials	2582.17	2629.51	2631.56	2645.90	2791.41 (9/10)	2144.64 (3/1)	2791.41 (9/10/89)	41.22 (2/7/32)
Home Bonds	92.83	93.05	93.12	93.19	94.15 (2/8)	87.35 (23/3)	—	—
Transport	1192.57	1211.77	1192.92	1206.26	1532.01 (5/9)	959.95 (3/1)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	218.06	219.69	220.07	220.45	221.64 (8/8)	181.84 (24/2)	227.83 (22/1/87)	10.50 (8/4/32)

♦Day's High 2621.72 (2650.82) Low 2574.59 (2612.91)

STANDARD AND POOR'S

	Nov. 6	Nov. 3	Nov. 2	Nov. 1	1989 HIGH	1989 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	332.61	337.62	338.48	341.20	359.80 (9/10)	275.31 (3/1)	359.80 (9/10/89)	4.40 (1/6/32)
Industrials	378.85	384.77	385.96	389.42	410.49 (9/10)	318.66 (3/1)	410.49 (9/10/89)	3.62 (21/6/32)
Financial	31.79	32.35	32.41	32.66	35.24 (9/10)	24.30 (3/1)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	184.77	187.28	187.64	188.84	199.34 (9/10)	154.98 (3/1)	199.34 (9/10/89)	4.46 (25/4/42)
Amex Mkt. Value	368.68	371.79	371.48	372.14	397.03 (10/10)	305.24 (3/1)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	448.02	452.97	453.14	456.64	485.73 (9/10)	378.56 (3/1)	485.73 (9/10/89)	54.87 (31/10/72)

	Nov 3	Oct 27	Oct 20	year ago (approx.)
Dow Industrial Div. Yield	3.93	3.97	3.83	3.62

	Nov 1	Oct 25	Oct 18	year ago (approx.)
S & P Industrial div. yield	2.97	2.95	2.95	3.19
S & P Indl. P/E ratio	14.25	14.31	14.28	13.03

NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Closing price	Change on day
Amax (xd)	8,222,400	22⅛	− ⅛
Philip Morris	2,537,800	40⅝	− 1⅝
Ford Motor	2,160,700	43⅞	− 1⅛
Chevron	2,032,500	64⅝	− 4
IBM	2,004,600	96⅛	− 1⅞
Placer Dom	1,955,800	18⅛	+ ⅝
Gt Nthn Nekoosa	1,643,400	62⅛	− ½
Ryder System	1,497,400	22⅞	+ 1¼
Compaq Comp	1,428,000	89¼	+ ¼
Telerate	1,355,400	20⅞	—

TRADING ACTIVITY

† Volume Millions	Nov 6	Nov 3	Nov 2
New York	135.480	131.500	153.540
Amex	9.787	12.133	11.783
NASDAQ	111.076	110.468	136.001
Issues Traded	1,964	1,941	1,971
Rises	349	645	540
Falls	1,185	777	912
Unchanged	430	519	519
New Highs	23	34	41
New Lows	87	60	62

CANADA

TORONTO	Nov 6	Nov 3	Nov 2	Nov 1	1989 HIGH	1989 LOW
Metals & Minerals	3380.95	3430.76	3441.14	3447.86	3919.2 (1/9)	3207.5 (3/1)
Composite	3906.75	3929.10	3935.70	3935.59	4037.8 (6/10)	3350.5 (6/1)
MONTREAL Portfolio	1993.0	2005.16	2010.57	2012.95	2069.68(10/10)	1677.48 (3/1)

Base values of all indices are 100 except NYSE All Common—50; Standard and Poor's—10; and Toronto Composite and Metals—1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Nov. 7	Nov. 6	Nov. 3	Nov. 2	1989 HIGH	1989 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1648.2	1656.9	1657.1	1652.0	1781.8 (29/8)	1412.9 (7/4)
All Mining (1/1/80)	812.1	815.1	806.3	795.3	875.1 (29/8)	652.6 (7/4)
AUSTRIA						
Credit Aktien (30/12/84)	370.84	403.20	419.35	426.85	515.09 (11/10)	219.5 (2/1)
BELGIUM						
Brussels SE (1/1/80)	6217.81	6332.79	6333.05	6304.51	6605.28 (26/9)	5519.30 (4/1)
DENMARK						
Copenhagen SE (3/1/83)	340.82	342.52	342.62	342.80	356.65 (12/7)	275.49 (27/2)
FINLAND						
Unitas General (1975)	659.7	662.8	664.5	663.0	815.8 (18/4)	659.7 (7/11)
FRANCE						
CAC General (31/12/82)	500.6	511.0	513.8	514.3	561.6 (11/10)	417.9 (4/1)
Ind. Tendance(30/12/88)	113.3	115.7	116.5	117.4	128.1 (10/10)	97.5 (27/2)
GERMANY						
FAZ Aktien (31/12/58)	608.23	611.15	612.14	619.39	690.91 (10/10)	535.78 (27/2)
Commerzbank (1/12/53)	1783.7	1807.9	1812.1	1836.0	2056.8 (10/10)	1595.7 (27/2)
DAX (30/12/87)	1428.07	1454.38	1449.90	1460.01	1657.61 (8/9)	1271.70 (23/2)
HONG KONG						
Hang Seng Bank (31/7/64)	2738.09	2756.12	2739.79	2711.86	3309.64 (15/5)	2093.61 (5/6)
IRELAND						
ISEQ Overall (4/1/88)	1660.29	1664.63	1667.72	1672.28	1848.93 (10/8)	1360.64 (10/1)
ITALY						
Banca Com. Ital. (1972)	648.98	655.32	652.50	652.71	734.84 (31/8)	577.49 (28/2)
JAPAN						
Nikkei (16/5/49)	35270.46	35434.00	(c)	35494.86	35689.98 (28/9)	30183.79 (5/1)
Tokyo SE (Topix) (4/1/68)	2663.39	2681.48	(c)	2685.03	2708.58 (2/10)	2366.91 (6/1)
2nd Section (4/1/68)	3648.93	3653.02	(c)	3646.27	3804.11 (9/10)	2774.38 (27/3)
NETHERLANDS						
CBS Ttl.Rtn.Gen.(End 1983)	244.8	246.5	247.6	250.3	272.7 (21/9)	208.3 (3/1)
CBS All Shr (End 1983)	188.2	189.4	190.3	192.4	210.5 (8/9)	166.7 (1/3)
NORWAY						
Oslo SE (2/1/83)	620.14	628.12	628.35	628.12	695.50 (28/9)	467.17 (2/1)
PHILIPPINES						
Manila Comp (2/1/85)	1342.14	1348.16	1310.44	1322.07	1348.16 (6/11)	804.62 (6/2)
SINGAPORE						
Straits Times Ind. (30/12/66)	1320.84	1322.83	1330.79	1336.18	1431.85 (12/10)	1030.69 (4/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1882.0‡	1849.0	1836.0	1769.0	1882.0 (7/11)	1291.0 (15/2)
JSE Industrial (28/9/78)	2563.0‡	2584.0	2589.0	2577.0	2838.0 (25/8)	1961.0 (3/1)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	877.76	881.46	887.18	885.34	1007.80 (3/4)	846.30 (1/7)
SPAIN						
Madrid SE (30/12/85)	301.60	304.86	305.99	308.60	328.93 (13/9)	268.61 (1/3)
SWEDEN						
Jacobson & P. (31/12/56)	4134.9	4163.1	4174.8	4189.3	4660.3 (16/8)	3333.9 (3/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	723.2	729.0	732.1	740.1	829.1 (6/9)	613.1 (3/1)
TAIWAN**						
Weighted Price (30/6/66)	10025.29	10315.79	10560.24	10639.47	10773.11 (25/9)	4873.01 (5/1)
THAILAND						
Bangkok SET (30/4/75)	702.05	704.58	701.52	703.62	724.93 (13/9)	386.73 (2/1)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	522.8	526.9	527.0	551.2 (3/8)	487.6 (13/6)

**Saturday Nov. 4: Taiwan Weighted Price: 10492.45. Korea Comp Ex. 888.46.
‡ Subject to official recalculation.
Base values of all indices are 100 except Brussels SE, ISEQ Overall and DAX - 1,000, JSE Gold - 255.7, JSE Industrials - 264.3 and Australia All Ordinary and Mining - 500; (c) Closed. (u) Unavailable.

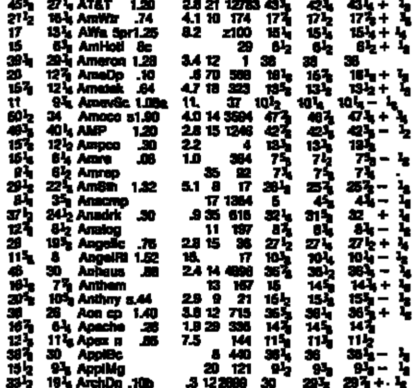
TOKYO - Most Active Stocks
Tuesday November 7 1989

	Stocks Traded	Closing Prices	Change on day
Tokyu	32.3m	2,890	+200
Toda Const	28.7m	2,200	+130
Nagoya Rly	21.8m	1,610	+30
Mitsubishi Metal	19.8m	1,130	+30
Hankyu	19.8m	1,650	−30
Mitsubishi Oil	18.4m	1,680	+60
Cosmo Oil	17.8m	1,320	−20
IHI	17.1m	1,320	−20
Nippon Mining	16.9m	978	+13
Tokyo Tatemono	15.2m	1,040	+30

3pm prices November 7

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
37½	21¾	AAR	.48	1.3	22	71	36⅞	35½	35¾	
9⅝	8⅝	ACM n	1.01	11.		289	9⅝	9¼	9¼	
11⅞	10¼	ACMIn		11.		421	11⅜	11¼	11⅜	
10⅛	8	ACM M	n1.01	11.		130	9	8⅞	9	+ ⅛
11½	10	ACM Sc	1.26	11.		651	11⅛	11	11	– ⅛
9⅝	8⅛	ACMSp	1.01	11.		233	9⅛	9	9⅛	+ ⅛
16	11½	AL Lab	.12	.8	16	110	16	15⅞	16	– ¼
6⅛	4½	AM Intl			10	667	5	4⅞	4⅞	
23½	20⅝	AM In pf	2	9.6		17	21⅛	20⅞	20⅞	– ¼
107¼	46½	AMR			8	3101	72⅛	71	71¼	–1⅛
6½	3⅝	ARX				49	3¼	3⅛	3¼	
53½	37¼	ASA	3a	6.6		2167	u53⅞	53¼	53⅛	+1⅛
30¼	15¼	AVX	.24	.8	29	1480	29½	28¼	28⅞	
68½	44⅞	AbtLab	1.40	2.2	17	3911	64⅝	63¼	64¼	+ ⅜
18¼	12⅞	Abitibi g	1			33	12⅞	d12¼	12⅜	– ⅛
13	7½	AcmeC	.40	4.1		34	9⅞	9¾	9¾	
9¼	5⅞	AcmeE	.32	3.8	11	x52	8⅛	8⅛	8⅛	
38½	20¼	Acusn			23	189	35¼	34⅝	35⅛	– ⅛
17	14¼	AdaEx	1.82e	11.		42	16¾	16⅝	16⅝	
12⅝	6½	Adobe				170	10¼	10	10¼	+ ⅛
19⅞	16½	Adob pf	1.84	10.		7	18¼	18⅛	18¼	– ¼
21⅝	19¾	Adob pf	2.40	12.		12	20½	20⅛	20½	
10⅛	7¼	AMD				1197	7½	7⅛	7⅜	+ ⅛
35	28¾	AMD pf	3	11.		772	28¾	d28½	28½	– ¼
10⅛	6¾	Advest	.12	1.5	11	124	8	8	8	
62½	46	AetnLf	2.76	4.6	10	1404	60	59⅜	59⅞	+ ⅛
14	12⅛	AflPb	.22	1.7		338	12⅛	12⅝	12⅝	– ⅛
25	15⅛	Ahmans	.88	4.5	10	1376	19⅝	18⅞	19⅛	+ ½
4	2⅛	Aileen				32	2¾	2⅝	2⅝	– ⅛
45⅛	37¾	AirPrd	1.32	3.0	11	1675	44	43½	43¾	
39⅝	18	AirbFrt	.60	1.6	20	79	38⅞	38⅜	38⅞	+ ⅛
25⅛	14½	Airgas			10	1169	18½	17	17½	–1⅛
20¼	18¾	Airlease	2.40	12.	11	15	19⅝	19½	19⅝	+ ⅛



Continued on Page 47

NYSE COMPOSITE PRICES

Continued from previous Page

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

3pm prices November 7

NASDAQ NATIONAL MARKET

3pm prices November 7

AMERICA

Bonds put bounce back in Dow after weak opening

Wall Street

AFTER A bout of early weakness, stocks yesterday bounced back to stand modestly higher at midsession, *writes Janet Bush in New York.*

At 3 pm, the Dow Jones Industrial Average was quoted 11.89 points higher at 2,594.06, having been about 10 points lower earlier in the session. Volume was moderately active, with 113m shares traded by early afternoon.

The opening price weakness came partly on futures-related programme selling, while the recovery was also attributed to programmes as the stock index arbitrage reversed.

The mood remained cautious after the 47.34 point drop on Monday which took the Dow to its lowest closing level since October 13.

Secondary issues were mixed, with the American Stock Exchange registering a minimal decline at midsession, but the Nasdaq composite index marginally higher.

The rebound from early lows was helped partly by renewed firmness in the bond market which was reacting favourably to a soft Fed Funds rate. While most bond analysts did not believe that the US Federal Reserve had any new domestic economic justification to ease policy, particularly after last Friday's strong employment and earnings report for October, some bond traders apparently speculated that the Fed had initiated another small easing move.

At midsession, Fed Funds were quoted at 8⅝ per cent, some way below the 8¾ per cent level that most bond analysts believe that the Fed had been targeting.

The bounce from its lows by the Dow index also reflected an improved technical position after the sharp fall on Monday which took the index to within about 12 points of its October 13 close. There was still a view among equity analysts that the market would test the low of October 13, around 2,500, which could imply more selling before the market can record a steady run of gains.

It may, nevertheless, still be difficult for the equity market to make progress, because of lingering disappointment about third-quarter corporate earnings and concern about the performance in the final quarter of the year, and until the Fed clearly moves to ease monetary policy in response to economic weakness.

The equity market's bounce in line with the bond market suggests that traders here, too, were building hopes of an easing because of the soft Fed Funds rate.

In the wake of disappointing third-quarter earnings reports, some analysts have been revising down their fourth-quarter forecasts. Ms Elaine Garzarelli, of Shearson Lehman Hutton, said that she now expected Standard & Poor's 500 earnings to be down 7.9 per cent from a year ago in the fourth quarter.

Among featured stocks yesterday was Tosco, which surged $7 to $24⅛. Tosco said that it had hired Bear Stearns to assess offers from several multi-national companies. It also cleared the way for Argus Energy to boost its stake in the company. Argus currently owns around 25 per cent.

Dillard Department Stores rose $1⅞ to $65¼ after the company reported better-than-expected third-quarter earnings. Wyse Technology added $¾ to $9 on an unconfirmed press report that a Taiwanese consortium had offered $20 a share for the company.

Rohr Industries fell $1⅝ to $20⅝ amid disappointment about its latest quarter's results. The company reported a loss of 64 cents a share, compared with a profit a year ago.

Canada

WORRIES about weak third-quarter company profits kept Toronto investors in a hesitant frame of mind, and stocks were little changed by midsession.

The composite index rose 3.6 to 3,910.3 on volume of 17.7m shares. Advancing shares led declining ones by 275 to 251.

Philippine exchanges court foreign interest

Greg Hutchinson assesses the launch of a $60m fund with presidential promotion

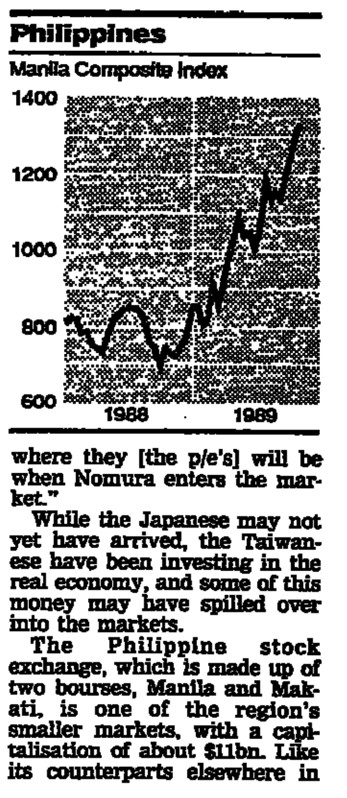
DURING her visit to the US, President Corazon Aquino of the Philippines will officiate today at the launch of a $60m fund for foreigners to invest in her country's stock market.

The First Philippine Fund, which is underwritten by a syndicate led by Nomura Securities, is already oversubscribed, reflecting an enthusiasm for the main Philippine blue chips which, paradoxically, is worrying brokers and stock exchange officials in Manila.

"The price/earnings ratios are high for the Philippines, historically; also, earnings are poor. You have to ask if it is realistic," says Mr Gregorio Kilayko of James Capel.

Realism is relative, however, in east Asia. San Miguel, the diversified food group best known for its beer, for example, may have a p/e of 31, but this pales against Japanese and Taiwanese ratios which are commonly 60 and more.

"Japanese money has not come in yet," says Mr Heraldo Urbina, president of the Manila Stock Exchange. "Imagine where they [the p/e's] will be when Nomura enters the market."



While the Japanese may not yet have arrived, the Taiwanese have been investing in the real economy, and some of this money may have spilled over into the markets.

The Philippine stock exchange, which is made up of two bourses, Manila and Makati, is one of the region's smaller markets, with a capitalisation of about $11bn. Like its counterparts elsewhere in south-east Asia, however, it is being targeted for growth.

Within the region, it ranks behind Thailand, Malaysia and Singapore; Mr Urbina says that it could soon be overtaken by Indonesia, which is receiving strong government backing. "At least Indonesia does not have the farce of two stock markets duplicating each other," he says.

Companies in the Philippines are required to list on both the Manila and Makati exchanges, paying dues to each although they are only a few miles apart and track each other's prices religiously.

Nevertheless, the Philippine market has come a long way since June last year, when it was capitalised at $3.3bn and the Manila composite index stood at 847, compared with 1,342.14 yesterday.

The spurt ahead is due to renewed confidence in the Philippine economy, which is growing at an annual 5.3 per cent. For the surge to continue, however, the Government needs to keep a lid on inflation, currently a worrying 12 per cent and tipped by many analysts to touch 15 per cent by the end of the year.

Local and foreign interest has focused on leading commercial and industrial stocks, such as Philippine Long Distance Telephone, San Miguel and Ayala, and on new listings, especially Philippine National Bank (PNB), which has seen its shares trading above Ps600 ($28.40), or more than treble the Ps170 grey market price in the issue, launched three months ago.

Following the enormous success of the offer, PNB, the country's largest bank with assets of Ps49bn, is now considering a second flotation, after the initial offer of 30 per cent of its capital, or 10.6m shares.

"PNB is a case in point for the conservative choice of foreign fund managers who first enter a country," says Mr Erico Claudio, another broker with James Capel. Foreigners, who were entitled to PNB once it began official trading, bought in at Ps230.

This week, the Philippine market has reached a new all-time high, surpassing its July 21, 1987, peak of 1,337.59 on the Manila composite index to close on Monday at 1,348.16, before edging lower yesterday.

The Wall Street-inspired collapse in mid-October, and demonstrations demanding the return of former President Marcos's body, have been shrugged off as Filipinos bought in anticipation of large profits from the listing of the First Philippine Fund.

By world standards the $60m fund is tiny, but it is big against the market's capitalisation. That is probably why the fund is also authorised to invest in up to 5 per cent of any Philippine company, whether or not it is publicly listed.

The fund's officers are known to be scouring the lists of enterprises being prepared for privatisation. These could include the national flag carrier, Philippine Airlines, and the prestigious Manila Hotel, both due to be floated next year.

In the nearer term, there are new listings which should partially ease the tight supply.

ASIA PACIFIC

Fears of discount rate rise undermine Nikkei

Tokyo

GROWING fears of an increase in the official discount rate led investors to shun equities, which fell for the third day running, *writes Michiyo Nakamoto in Tokyo.*

The Nikkei average failed to recover from a substantial loss at the start. After moving from an intra-day high of 35,371.09 – below Monday's close – to a low of 35,098.78, the index ended down 163.54 at 35,270.46.

Declines far outnumbered advances, by 641 to 277, and 192 stocks were unchanged. However, turnover improved to 766m shares, up from Monday's 611m. The Topix index of all listed shares lost 18.09 to 2,663.39, while the London-traded ISE/Nikkei 50 index was 1.78 lower at 2,028.90.

"We're waiting for an interest rate hike," said Mr John Courtney at W.I. Carr.

The yen took another beating from the dollar yesterday, sending tremors through the bond market. With both short and long-term interest rates at higher levels, there was a growing conviction that there would be an official rate rise, possibly even this week.

As usual in the face of uncertainty, the market turned to asset plays. Tokyu, the railway company which has sizeable land assets, returned to prominence with a surge in volume and a gain during the day of Y90 to a record high of Y3,040 before closing Y20 better at Y2,970. Investors expect that the interest being shown by a well-known group of speculators in a Tokyu affiliated company will trigger moves by the group to encourage stable shareholders to buy their shares, thus reducing the free float on the market.

Tokyu is also a "rescue-the-market-sentiment stock," said one foreign salesman. Much of the activity in Tokyu, which topped the volumes list with 32.3m shares traded, was by dealers worried about sinking market volume and flagging interest. A leading securities firm was said to be recommending the stock.

Nagoya Railways, which has its headquarters to the south-west of Tokyo, climbed to third place on the volumes list with 21.6m shares traded and closed Y30 better at Y1,610. The company has considerable property assets and its plans to build an airport in Nagoya in 1992 fuelled expectations of higher land prices in the area. Interest in real estate outside Tokyo has benefited from an increasing awareness of the need to develop these areas.

Toda Construction rose Y300 to Y2,290. The issue was rumoured to be supported by *tokkin* – or special trust – funds, to help them improve their books; it was also said to be targeted by speculators. Toda was the second most actively traded stock with 28.7m shares.

A continuing bullish outlook for gold prices attracted attention to nonferrous metals. Mitsubishi Metal rose Y30 to Y1,210 in active trading. Rumours have been circulating in the market that the US has been buying gold to support the Soviet economy and help President Mikhail Gorbachev retain power.

Interest in special situation issues failed to support the market in Osaka, which closed with a loss of 162.84 in the OSE average to 36,348.83. Volume sank from 62m shares on Monday to 59.8m shares. Hankyu, the railway company, fell back Y80 to Y1,630.

Roundup

UNITED in their weakness and the low level of trading, markets in the Pacific Basin followed Wall Street down yesterday.

HONG KONG lost the impetus it gained on Monday, in spite of a further rise of 5 cents to HK$7.05 in the shares of the Hongkong Bank. Turnover fell back from HK$1bn to HK$788m as the Hang Seng index closed 18.03 lower at 2,738.09.

Property shares bore the brunt of the downturn. Reports that certain property developments in China's Guangdong province were being halted dampened trading interest, as they raised fears of another economic austerity programme. Cheung Kong eased 5 cents to HK$9.10, Hang Lung Development 10 cents to HK$5.10 and Hongkong Land 15 cents to HK$8.50.

AUSTRALIA saw its gold share run come to a halt, and the All Ordinaries index fell 8.7 to 1,648.2, with industrials, mining and oils all making their contribution to the decline. A public holiday in Melbourne, Australia's second-biggest city, took turnover down to 50m shares worth A$85m, from 76m worth A$147m.

Industrials fared worst, News Corp slipping 15 cents to A$12.50 and TNT 4 cents to A$3.04. Gold shares were mostly little changed, in spite of the firmer gold price.

NEW ZEALAND fell 1.6 per cent, the Barclays index ending 33.05 lower at 2,058.20. Volume was light, totalling 7.7m shares worth NZ$15.3m, but higher than Monday's minimal levels of 5.5m and NZ$11.2m.

Rumours that Lion Nathan might abandon its deal to buy 50 per cent of Bond Corp's Australian brewing assets circulated again, and the shares fell 4 cents to NZ$3.98. Lion Nathan's results are due today, with analysts expecting some improvement.

TAIWAN fell sharply in thin trading, the weighted index closing 290.50 (2.8 per cent) lower at 10,025.29. Trading volume totalled 846m shares and NT$118bn, compared with 882m and NT$118bn on Monday.

SEOUL ended off its day's lows after a slight recovery in afternoon dealings, and the composite index closed at 3.76 lower at 877.76 in slow trading.

SOUTH AFRICA

GOLD SHARES rose sharply in Johannesburg as the bullion price firmed to more than $384 an ounce, at one stage reaching its highest level for four months in London. Vaal Reefs surged R16 to R406.

EUROPE

Damage control parties achieve varied success

MONDAY'S Wall Street slide reverberated through Continental markets yesterday. Some of them were more successful than others in containing their anxiety, *writes Our Markets Staff.*

FRANKFURT tried to hold its ground, and the FAZ index closed only 3.27 lower at 608.23 in midsession. However, the DAX then declined with a vengeance, closing the day 30.61, or 2.1 per cent, lower at 1,428.07, breaking through its 200-day average on the downside.

Volume has been crawling up over the past week or so, but it was still only DM3.3bn yesterday, when traders were blaming an even wider-than-usual selection of events for the market's malaise: the aggressive nature of the foreign investor, as buyer or seller; the two-day settlement period, which allows the aforesaid foreigner to get out, fast; the metalworkers' pending fight for better hours and pay; and rights issues, calculated at a DM15bn call on the market this year compared with DM8bn in 1988.

An added reason, yesterday, was the exodus of nearly 200,000 people from East Germany. It is in the nature of bear markets, said one observer, that what had been seen as an advantage a few short weeks ago, was now seen as a problem for the West German economy.

PARIS also retreated. "The market is waiting for good news from Wall Street to steady sentiment," said one analyst. Investors were also keeping a worried eye on rising short-term interest rates.

The CAC General index, based on opening prices, lost 10.4, or 2 per cent, to 500.6, its lowest level since 497.8 on July 27. The closing OMF 50 index fell 2.08 to 485.44. Turnover was estimated at FFr1.9bn.

A few stocks bucked the downward trend, with CGE up FFr10 at FFr455 in fairly active trading, Peugeot adding FFr2 to FFr802 on optimism about the French car industry, and CMB Packaging rising FFr7 to FFr205.

Perrier fell FFr27 to FFr1,833 after saying it planned to sell its soft drinks unit, Compagnie Françaises de Boissons Gazeuses, for up to FFr2.5bn, in order to concentrate on its mineral water business.

MILAN'S penchant for complicated share structures led to a couple of outstanding declines on a relatively resilient day.

The Comit index fell 6.34, or about 1 per cent, to 648.98 in quiet trading.

Meanwhile, Nuovo Banco Ambrosiano ordinary shares fell by L43, or 0.85 per cent to L4,992, while its savings shares dropped L65, or 3.4 per cent, to L1,835. Alitalia ordinary shares lost a negligible L12 to L2,199, but its preferred stock fell by 5.8 per cent, or L101, to L1,639.

The reasons are probably quite different. NBA's ordinary shares have a vote, and this is important in the context of the ongoing dispute between members of its shareholding syndicate. Alitalia suffered the news that Mr Carlo Verri, president, had died in a traffic accident on Monday night in Rome. However, traders ascribed the fall in the preferred stock to a clumsy sale in an illiquid market.

ZURICH virtually recovered from the Wall Street slide after a sharp fall on opening, the Crédit Suisse index closing only 2.2 lower at 585.8 in a market that still lacked volume.

Its resilience, however, did not apply to Swiss Re, which lost SFr250 to SFr13,450 after a confident progress report. The company said yesterday that it was optimistic about its 1989 results, in spite of claims arising out of Hurricane Hugo and the earthquake in California.

AMSTERDAM eased in an uninspiring session, with depression growing as Wall Street opened lower. The CBS tendency index slipped 0.8 to 174.6.

Unilever fell Fl 2.40 to Fl 144.10; it announces third-quarter results and its interim dividend on Friday. NMB Postbank lost 60 cents to Fl 44.20; it will hold a news conference on November 14 on the privatisation of a stake of 20 to 30 per cent in the bank.

MADRID was discouraged by Wall Street's overnight slide and by news that Spain's Economy Minister had said he wanted to keep interest rates higher than elsewhere in Europe. The general index lost 2.66 to 301.60.

BRUSSELS saw investor resistance on the last day of the fortnightly trading period. The cash market index fell 114.98 to 6,217.81.

Raffinerie Tirlemontoise, the foods group, kept its high profile with a hefty 65,000 shares changing hands. The group, up BFr5 at BFr3,060, had been the target for considerable profit-taking since its rise last week on the sale of its sugar refining activities to Südzucker of West Germany.

STOCKHOLM dealings were dominated by Aga, the industrial gases group, which moved against the trend on an otherwise subdued bourse. Aga's free B shares added SKr10 to SKr240 in aggressive buying.

The Affärsvärlden general index eased 5.2 to 1,206.8.

Volvo was among issues that were heavily traded. Its free Bs shed SKr6 to SKr462.

OSLO ended mostly lower in lacklustre trade. The all-share index shed 5.0 to 485.41, with only shipping stocks bucking the trend. They accounted for NKr150m worth of the day's trade totalling NKr282m.

FT-ACTUARIES WORLD INDICES

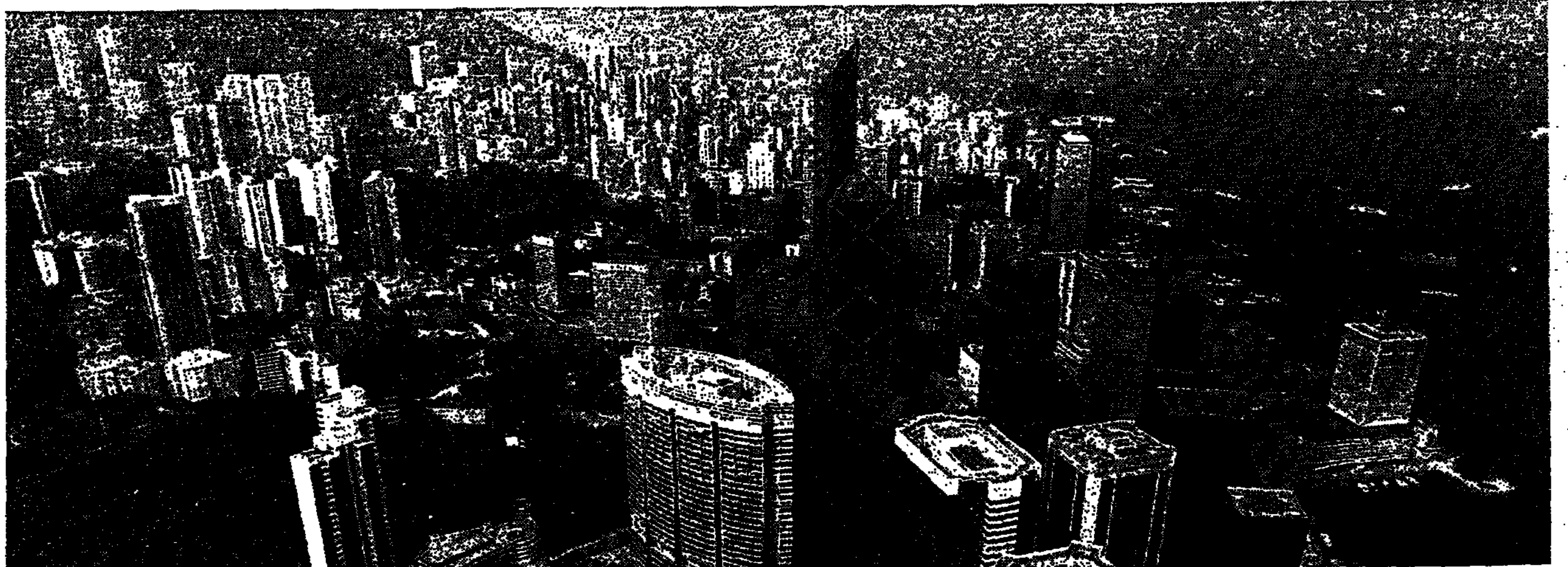
Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	MONDAY NOVEMBER 6 1989						FRIDAY NOVEMBER 3 1989			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Day's change % local currency	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1989 High	1989 Low	Year ago (approx)
Australia (85)	150.11	+0.3	140.90	127.60	-0.1	5.20	149.61	141.19	127.67	160.41	128.28	147.18
Austria (19)	140.38	-4.2	131.77	135.05	-3.8	1.80	146.56	138.31	140.42	172.22	92.84	95.15
Belgium (63)	138.04	-0.4	129.57	132.60	+0.0	4.17	138.62	130.82	132.64	144.49	125.58	129.89
Canada (122)	147.91	-0.5	138.83	125.47	-0.6	3.28	148.72	140.35	126.27	154.17	124.67	116.28
Denmark (38)	210.67	-0.5	197.83	205.65	-0.2	1.53	211.82	199.90	206.21	219.89	165.36	145.18
Finland (26)	124.44	-0.4	116.80	111.80	+0.1	2.52	124.90	117.87	111.74	159.16	123.12	128.60
France (126)	129.16	-1.6	121.23	127.18	-1.5	2.96	131.29	123.90	129.07	139.84	112.57	108.35
West Germany (97)	93.54	-0.3	87.81	90.07	-0.1	2.28	93.85	88.57	90.17	103.84	78.56	84.50
Hong Kong (48)	116.53	+0.7	109.38	116.89	+0.7	4.83	115.72	109.21	116.06	140.33	88.41	104.83
Ireland (17)	155.83	-0.8	146.26	153.06	-0.2	2.99	156.69	147.87	153.37	166.69	125.00	130.45
Italy (97)	87.97	+0.4	82.57	89.15	+0.4	2.56	87.61	82.68	88.76	96.73	74.97	84.37
Japan (455)	184.97	-0.8	173.62	167.95	-0.2	0.48	186.10	175.63	168.34	200.11	164.22	172.87
Malaysia (36)	191.22	-1.1	179.49	198.91	-0.9	2.67	193.34	182.46	200.74	209.22	143.35	140.16
Mexico (13)	293.62	-3.2	275.61	844.32	-3.3	0.61	303.43	286.35	872.63	326.61	153.32	159.90
Netherland (43)	122.55	-0.6	115.03	116.90	-0.4	4.54	123.30	116.36	117.36	131.72	110.63	108.22
New Zealand (18)	75.95	-0.9	71.29	68.62	-1.0	5.12	76.61	72.30	69.30	88.18	62.64	71.27
Norway (24)	171.97	+0.0	161.42	161.76	+0.3	1.60	172.04	162.36	161.35	198.39	130.92	120.40
Singapore (26)	154.23	-0.7	144.77	139.36	-0.5	2.12	155.36	146.62	140.04	170.62	124.57	121.12
South Africa (60)	159.24	+0.8	149.47	140.07	+0.0	4.00	157.91	149.02	140.03	160.24	115.35	114.07
Spain (43)	156.73	-1.0	147.11	138.80	-0.5	3.77	158.36	149.45	139.47	169.75	143.14	152.17
Sweden (35)	173.26	-0.3	162.63	164.92	+0.0	2.08	173.86	164.07	164.91	188.94	136.43	131.85
Switzerland (64)	84.37	-0.2	79.19	84.94	+0.0	2.22	84.53	79.77	84.93	94.16	67.81	84.36
United Kingdom (306)	140.47	+0.5	131.85	131.85	+0.5	4.62	139.80	131.94	131.94	158.41	133.28	135.85
USA (546)	135.22	-1.4	126.92	135.22	-1.4	3.42	137.20	129.48	137.20	146.29	112.13	111.78
Europe (996)	122.15	-0.2	114.65	118.36	-0.3	3.61	122.37	115.48	118.66	132.95	112.63	112.97
Nordic (121)	166.31	-0.4	156.11	153.49	+0.0	1.85	166.90	157.51	153.54	178.38	137.95	125.69
Pacific Basin (668)	180.92	-0.8	169.82	164.29	-0.2	0.73	181.94	171.70	164.63	194.72	160.44	169.08
Euro-Pacific (1664)	157.48	-0.4	147.82	145.12	-0.2	1.64	158.17	149.27	145.48	166.96	141.56	146.66
North America (668)	135.86	-1.4	127.54	134.62	-1.4	3.41	137.79	130.03	136.53	146.66	112.79	112.60
Europe Ex. UK (690)	110.09	-0.6	103.34	106.85	-0.4	2.89	110.80	104.56	107.30	118.51	96.30	98.70
Pacific Ex. Japan (213)	132.22	+0.2	124.11	118.52	+0.1	4.79	131.91	124.48	118.46	140.05	111.93	123.65
World Ex. US (1859)	157.25	-0.4	147.60	144.65	-0.2	1.71	157.93	149.05	145.00	166.35	141.49	145.29
World Ex. UK (2099)	149.15	-0.9	140.00	142.38	-0.7	2.03	150.46	142.00	143.36	156.04	136.98	132.04
World Ex. So. Af. (2345)	148.29	-0.8	139.19	141.39	-0.6	2.24	149.44	141.03	142.29	155.92	136.67	132.46
World Ex. Japan (1950)	130.98	-0.9	122.92	127.71	-0.9	3.54	132.10	124.67	128.89	140.43	114.51	112.91
The World Index (2405)	148.35	-0.8	139.25	141.36	-0.6	2.25	149.49	141.08	142.27	155.89	136.68	132.34

Constituent changes 7/11/89: Insertions: Euro Disneyland (France) and Storebrand A/S Free (Norway). Deletions: Victoria Hldgs.(50%Pd.) (Germany) and Storebrand (Norway). Name change: Kinder-Care Lrning to Enstar (US). Latest prices were unavailable for this edition.

SECTION III
FINANCIAL TIMES SURVEY

After the emergence of a hardline leadership in China, Hong Kong is wondering if it can sustain a role as a wide-ranging capitalist centre, able to withstand the inevitable buffeting and interference from communist Peking, says **John Elliott**



■ In the foreground, above, new hotel and office complexes in Hong Kong with, centre, the Bank of China headquarters, the tallest building in Asia.

HONG KONG
AS A BUSINESS AND TRADING CENTRE

Learning to live with Peking

FOR YEARS Hong Kong has carefully cultivated its confident image as an internationally important financial and business centre. That confidence has now been replaced by uncertainty as it faces persistent accusations from Peking that it is a centre for the subversive activities of political dissidents bent on overthrowing China's Communist regime.

This is the latest fallout from the army crackdown on Chinese students' demonstrations in June and the emergence of a hardline leadership in Peking. The leadership seems prepared to sacrifice some of the colony's capitalist self-confidence and economic buoyancy in the interests of squashing what it regards as dangerous political activity.

The events of the last few months have brought home to people the reality of Hong Kong's return to Chinese sovereignty in 1997 and made them worry that China may not keep its pledge of allowing Hong Kong a "high degree of autonomy" for at least 50 years after 1997.

The main question now is whether Hong Kong manages to develop a role as a wide-ranging capitalist centre that can withstand inevitable buffeting and interference from Peking's bureaucratic Communist regime, and remain a city that works better than all its rivals.

Alternatively, will it enter the next century back where it was in the late 1890s as a prosperous trading centre, based on one of the world's best deep water harbours. Then it would be a rather glitzy mirror of modern-day Shanghai, important but not internationally significant.

"The next two to three years are the most crucial in our history because things should sort themselves out well before 1997," says Mr Vincent Lo, a prominent young entrepreneur and convenor of a right-wing business lobby called the Group of 89 – "in the next two or three years, people who want to move out or diversify abroad will do so. Then things will settle down."

Already economic growth is expected to drop back to 3-4 per cent, half the average annual rate for the past ten years. Local Chinese businessmen are increasingly diversifying their interests and wealth abroad, while some international companies have started trimming their local operations, partly in reaction to high property prices and staff problems caused by a growing brain drain.

No-one knows the answer to the questions about the future because it is impossible to estimate how long Peking's existing hardline leadership will remain in power. What is clear is that the Basic Law, which will form Hong Kong's mini-constitution after 1997, is likely to have far fewer provisions for democracy and autonomy than had been expected before the June events in China politicised Hong Kong's population. That will knock confidence.

Consequently, there are now two views about how to treat China. One, which has been gaining ground among both local Chinese and expatriate businessmen, is that Hong Kong must learn to live with Peking. The Communist leadership can be criticised but not provocatively defied.

"People who are interested in the future of Hong Kong must realise that we have a big neighbour. We must not make it more difficult for ourselves by not being sensitive to the views of our neighbour," says Mr William Purves, chairman of the Hongkong Bank. "We have a great future if people here do not shoot themselves in the foot. Our future is with China".

The other view, which is in a minority, comes from people such as Mr Martin Lee, a leading lawyer and liberal spokesman, who attacks China and has been accused indirectly by Peking of sedition. Mr Lee, who has been dropped by Peking from the Basic Law drafting committee, argues that maximum democracy is essential to keep Peking at bay and to allow Hong Kong to operate freely.

"A free market economy can only thrive where there is freedom of expression," he says. "The continued success of the Hong Kong miracle depends on whether our people will be allowed to think freely and express themselves freely".

People in Hong Kong are now frightened of the risk of repression, not just worried about economic stagnation after 1997. That is why a vast majority of those who have the means to do so are trying to join the brain drain and emigrate abroad to earn a foreign passport. At least 50,000-55,000 are expected to leave annually from next year, putting serious strains on companies' ability to operate effectively. Companies hope that the outflow of their most valued employees will be reduced by a British passport and right of abode scheme to be announced soon.

Similarly, companies are taking initiatives to distance themselves from interference by Peking's Communists. More than 40 companies have this year moved their domicile to off-shore centres such as the Cayman Islands and Bermuda.

Future controls

Some institutions such as banks are considering downgrading their Hong Kong operations from local companies to branch offices to escape future controls. Even the Hongkong Bank, the colony's premier institution, will next year consider strengthening existing links with the UK's Midland Bank which could help to insulate it from Communist interference.

But this is not to suggest that business and entrepreneurship has stopped. New investment has begun to pick up after a lull in the wake of the June events and the government expects the private sector to put up 40 to 60 per cent of HK$127bn funds for planned infrastructure projects.

The colony's financial institutions have been re-constituted following the 1987 world markets crash and they successfully withstood pressures of both the June events in China and the New York market nose-dive last month. But there is still concern about the risks of over-regulation dampening the stock market which has still not recovered its pre-1987 buoyancy.

Foreign investment is still arriving, partly to capitalise on current prosperity and a construction boom, both of which go with a per capita income estimated at approaching US$11,000. Companies from Japan and elsewhere also want to make use of Hong Kong's labour force, despite rapidly rising costs, and to establish links with China.

It is estimated that at least 1.5m-2m people in China's southern Pearl River Delta work in Hong Kong-linked low-wage factories and that perhaps as many again are employed in related activities, bringing the total to 4m.

Since June production has been virtually normal, but companies in the toys and other industries have accelerated their search for dual sourcing arrangements in other low wage locations such as Thailand to assure worried foreign buyers of regular deliveries.

The industrial tie-ups underline the close linkage between Hong Kong and China which are becoming increasingly economically inter-dependent, despite the disruptive political developments. They are each other's largest trading partners. About 70 per cent of China's total US$12bn direct foreign investment comes from Hong Kong, two-thirds of it originating according to some estimates with Hong Kong and Chinese companies based in the territory, and one third routed and financed through foreign-owned Hong Kong representative offices.

"Hong Kong is a physical area where China's Communist regime is integrated into the world's capitalist economy," says Mr Leo Goodstadt, who this year set up a central policy unit for the government. This implies more integration than was suggested in the early 1980s by Sir John Bremridge, then the colony's financial secretary, who described Hong Kong as "China's cabbage machine – turning Chinese produce into hard currency."

It is widely argued that China's economy relies so heavily on Hong Kong that the Peking leadership will not disrupt the colony unnecessarily. However, that may be only partly true because it is conceivable that Hong Kong might fade to become a far less important regional financial centre and still service China satisfactorily.

The main strengths that could keep the place going are the natural assets of its port and its people who, as refugees from the mainland, strive for financial success.

"Hong Kong can survive. Entrepreneurs here know how to manage risk," says Professor Edward Chen of the University of Hong Kong. "There is a word in Cantonese for crisis – *ngai ki* – which combines the meanings of danger and opportunity. So, if you manage the risk well, you can make enormous opportunities."

☐ *Editorial production: Michael Wiltshire; pictures: Glyn Genin and Ashley Ashwood.*

Barry Riley on Hong Kong's prospects as a leading financial and commercial centre

A great place to be based for business

THE PLANES to Ho Chi Minh City in Vietnam (it used to be called Saigon) are full these days, the load-factors boosted not least by Hong Kong property developers. Several of these are busy leasing old office buildings and renovating them to a standard which multinational businesses will find acceptable.

As 40-floor office towers rise in Manila, and Bangkok is choked by a construction boom, there are reminders all around South East Asia that changes can take place amazingly fast. Does this represent a threat to Hong Kong, or simply re-inforce its opportunities as the leading financial and business centre in the region?

The clock is ticking away to 1997. With the brain drain putting increasing pressure on Hong Kong's financial institutions, rival centres could seize their chance.

Divided opinion

But opinion in Hong Kong is divided over whether there is a serious threat. William Purves, who as chairman of the Hongkong and Shanghai Banking Corporation is a pillar of the local establishment, insists that "Hong Kong is vital to China from an economic point of view."

He adds: "Hong Kong works better than most cities". The only sophisticated alternative is Singapore and that, he points out, is also suffering an exodus of people. "It's not likely to replace Hong Kong."

He is far from alone in thinking that the territory is unique. A leading merchant banker, Stephen Clark of Anglo Chinese Finance, considers that the changes needed for Singapore to become a truly international centre would encroach too much on what it wants to be – "if Hong Kong falters, I don't think anyone else will take the mantle up."

Mr Clark considers that the international outlook of Hong Kong has been a unique consequence of British rule. It is a view that is supported by Marc Faber, who runs Drexel Burnham Lambert's Hong Kong operation. But he fears that Hong Kong is now losing its uniqueness.

"Before the Communists took over in China, Hong Kong was a dump," says Mr Faber. "It became important because China became Communist. It was the only city in Asia that had no foreign exchange controls at all."

Now, he says, other centres like Singapore and Sydney (and perhaps soon, Taipei) offer the same services. Moreover, the mainland is changing, says Mr Faber, who cultivates a reputation as the territory's resident Dr Doom – "if China opens up, then in ten years there could be five or six cities more important that Hong Kong. And if China does not open up, Hong Kong will be in a lot of trouble."

Right now, however, Hong Kong retains a lot of advantages – "it's a wonderful place to be based," says Mark Mobius, who runs international emerging markets funds out of Hong Kong for Templeton Investment Management, and scours the Pacific rim for undervalued investment opportunities. He points to the excellent infrastructure, including top quality telecommunications, efficient travel connections and free flows of information. Work permits are relatively easily available for financial professionals, and personal and business taxes are comparatively low (with no tax at all on investments held outside Hong Kong).

One problem, however, is the cost of property. Land is inevitably in short supply in Hong Kong, but the scarcity is exaggerated by the Government's land release policy, which is designed to provide revenue. Property costs therefore amount to a kind of hidden tax on citizens and businesses in the territory.

Hong Kong, moreover, is not as free-wheeling and easy-going as it used to be. Since the stock market scandals of two years ago threatened the territory's reputation, the Government has cracked down, against the background of tighter and better-harmonised regulation in Europe and America.

Philip Tose, a well-known local stockbroker, who early this year became chairman of Peregrine Capital, observes that when it comes to regulation of the financial markets there has been "a fairly wide swing of the pendulum." The approach of the authorities, he says, has gone "almost from the sublime to the ridiculous".

Stephen Clark also worries that the dynamism of the local markets could be destroyed by the bureaucrats. The financial community, he says, was too hasty in 1988 in welcoming the conclusions of Ian Hay Davison, the top London accountant who was commissioned by the Government to write a report in response to the scandals of 1987.

"We should all blame ourselves," he considers. "The idea that the Hong Kong Stock Exchange should meet the standards of London or New York is quite inappropriate."

Local practitioners are doubtful, for instance, whether Hong Kong companies will be willing to accept tough disclosure standards unless there are clear rewards in the form of high market ratings. In this sense, the political risks in Hong Kong, which have led to stock market weakness, may make it more difficult to implement a clean-up campaign.

The Government, however, is clearly concerned to prevent Hong Kong from falling too far behind international practices. It believes that it must create a high quality financial industry by 1997.

There can be no absolute guarantees that the Chinese Government of that time will protect and sustain a capitalist Hong Kong, though the current regime has promised to do so. But at least it seems reasonable to suppose that a well-regulated Hong Kong will be more useful and attractive to the mainland as a gateway to the world than a scandal-ridden cowboy marketplace with a poor international reputation. On this view, Hong Kong needs to clean up its act in order to secure its very future.

This interest by the Government in the honesty of the markets is, however, relatively new. Previously it has been happy to let those dealing in the markets look out pretty much for themselves. Once, phenomena such as runs on failed banks, used to be a fairly normal part of the South China financial scenery. But they are no longer considered to be tolerable in a sophisticated financial economy.

"We've got to live down the past," says Anthony Nicolle, the Banking Commissioner. His policy of requiring banks in Hong Kong to comply with the internationally determined Basle Committee capital ratios sooner than in many other countries has caused eyebrows to be raised locally. "It's a way of telling the world that Hong Kong has got a soundly capitalised system," he says.

The main concern of the colonial Government over the years has been in insisting upon openness to outside participation – originally so that the requirements of the British Empire could be serviced. Now, there is a need to demonstrate to the Chinese Government that Hong Kong is plugged securely into the global capital markets – with the presence of some 350 international banks, for instance, either with full or deposit-taking licences.

In sharp contrast, most other financial centres in the region are very protective of domestic interest groups. International firms are still struggling to get into places like Seoul and Taipei. The battles of foreign stockbroking firms to enter the Tokyo Stock Exchange are well documented.

Tensions

Despite the policies of the Hong Kong administration, this underlying tension between domestic and international priorities nevertheless persists, and it has surfaced recently in the form of an argument over the new Stock Exchange clearing system.

Local brokers want to settle quickly, to minimise their working capital needs and their bad debt risks, but brokers with international clients need more time in order that certificates can be fetched from global custodians, possibly thousands of miles away.

But at the Hongkong Bank, Mr Purves is adamant that the territory's financial industry must become more and more international. He points to the fact that the Japanese, who take a very long view, are investing in Hong Kong on the basis of its potential as a gateway to China – "the opportunities for Hong Kong could be very great," he says.

SIGNS OF A SLOWDOWN

A lively economy takes a breather

HONG KONG'S dynamic economy is moving into what passes for a recession. The trend rate of growth in gross domestic product has been eight per cent annually in real terms, and in 1987 the growth rate hit an impressive, but unsustainable 13 per cent, easing to around seven per cent last year.

For 1989, the Government was forecasting growth of six per cent, but following the June upsets – which have hit tourism and certain other sectors – it looks as though 5 per cent will be nearer the mark.

Nevertheless, this should be enough to take GDP per capita to around the US$10,000 level, emphasising how far Hong Kong has moved out of the developing country bracket and into the global Top Twenty. It is now richer than several of the poorer European Community member-states such as Spain, Ireland or Greece.

Despite the slowdown, the effects of earlier overheating persist. Inflation, for instance, is still running at 10 per cent, and wage rates are up some 13.5 per cent on a year ago (with actual earnings growth probably higher still).

In its recent half-yearly economic report the Government indicated that, as at last March, earnings of manufacturing workers were up 18 per cent on a year earlier, and incomes of construction workers were up 25 per cent, in a particularly overheated sector. Earnings in financial services have been soaring, too.

Not surprisingly, this buoyancy reflects the fact that the territory's labour resources are fully stretched, with unemployment during the spring and summer measured at little more than one per cent.

Hong Kong is therefore rapidly distancing itself from the cheap labour economies elsewhere in South East Asia, and manufacturers are being forced to invest heavily in labour-saving machinery and raise productivity sharply. Also, manufacturing activity is being shifted across the border into China.

Employment in manufacturing in the territory actually fell by 4 per cent in the year to March, but there was a 13 per cent increase in the number of people working for financial and other business services. The workforce as a whole is growing only very slowly – held back by a decline in the participation rate from 66 per cent five years ago to about 63 per cent today. The fall reflects factors such as a rising proportion of old people, and greater involvement of youngsters in full-time higher education.

The acting Government economist, Mr K.Y.Tang, comments that Hong Kong is benefiting in GDP terms from the one-off shift of people out of manufacturing into services where the value added is greater. However, this also implies that the economy is becoming more mature, and although earnings in financial services may be higher, they also offer less scope for productivity growth. The seeds of a future slowdown in the growth trend are therefore being sown.

As for the immediate cyclical outlook, Mr Tang sees a "natural process of adjustment in the economy." There has been a good revival from the immediate impact of the political crisis in June, but there will be no acceleration this year, and much depends on the performance of the US economy. There is also uncertainty about Hong Kong's heavy investment in China – "I believe that 1990 will be another year of moderate growth," he says.

Alan McLean, who has just left Government service to become the Hongkong Bank's chief economist, maintains a close study of the situation on the mainland. It is, he says, a mixed picture.

On the positive side, the business of shipping raw materials and components into neighbouring Chinese factories for further processing is continuing to be largely unaffected by the political and economic difficulties of the People's Republic. However, Hong Kong's exports of consumer goods into China, representing about a quarter of the territory's total exports, are likely to suffer.

"Hong Kong has become over the years very much more dependent on the mainland economy," he says. Manufacturing investment is tailing off, while hotels and tourist shops are being hit by American cancellations and by the sharp fall in visitors to China who in the past have often spent two or three nights in Hong Kong en route.

The tourist dip should turn out to be temporary, however. A rapid expansion in the hotel industry saw the number of bedrooms climb by 15 per cent in the year to June, and although the immediate effect has been to push occupancy rates down sharply (by eight percentage points in the first half of the year) the industry will now be able to market its capacity more aggressively.

The threat to the level of manufacturing investment next year could be more worrying. But overall, according to Mr McLean: "The economy has survived the problems of June 4 in remarkably good shape."

But Hong Kong remains a small economy buffeted by global forces. In particular, the pegging of its currency to the US dollar has brought confidence, but has left the territory vulnerable to the vagaries of the American currency. This year the strength of the dollar has probably been welcome, as have the rises in interest rates during the first half, but it is the US Federal Reserve which will determine how interest rates move during 1990.

Looking further ahead, Hong Kong is now focusing on the need for infrastructure spending if it is to avoid running into serious bottlenecks. The existing Kai Tak airport, for instance, is approaching full capacity, and road links with the mainland need to be improved.

Last month the Governor, Sir David Wilson, unveiled a plan costing HK$127bn (£10.6bn) for a new airport and seaport development scheme. The motivation is political as well as economic, but most businessmen in Hong Kong agree that action needs to be taken to underpin the territory's long-term development.

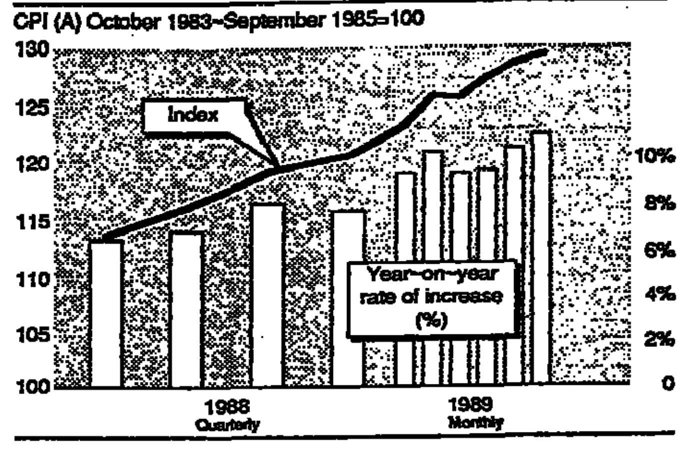
Immediately, however, the Financial Secretary, Sir Piers Jacobs, was warning that taxes may have to be increased in order to pay for part of the costs. He once again raised the prospect of a sales tax, which would be highly unwelcome in Hong Kong's freeport culture.

Hong Kong's economy is fast growing up. But maturity brings added responsibilities, and a retreat from the simplicities of the past.

Barry Riley

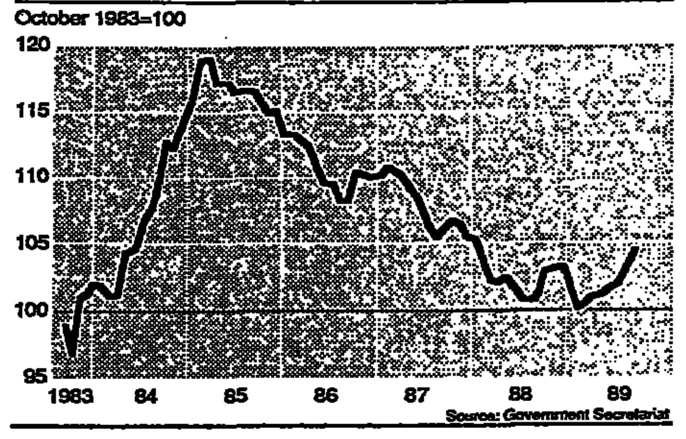
Consumer Price Index

CPI (A) October 1983–September 1985=100



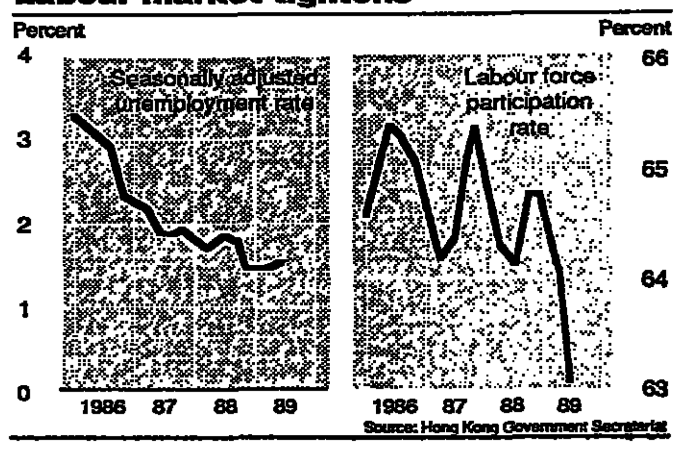
Effective exchange rate index

October 1983=100



Source: Government Secretariat

Labour market tightens



Source: Hong Kong Government Secretariat

The colony has the world's busiest container terminal

Business centre based on a deep-water port

HONG KONG'S role as a broad business and service centre has long been overshadowed by its internationally famous but narrower financial sector. The development of the present-day financial city, however, began with commerce in what is one of the world's most perfect natural deep water harbours, and its future may well depend on this.

It was the port that led to the development of Hong Kong as an *entrepôt* for China. A manufacturing industry then grew up, followed by development of the financial sector and more general business services. With the opening up of China's economy in the past decade, the *entrepôt* free port role has come back to the fore, and manufacturing has given way to more services as labour-intensive factories have switched across the border to cheaper locations in China.

"Hong Kong is a centre for manufacturers, rather than a centre of manufacturing," says Mr Andrew Leung, the Government's director of industry. This is a reference to services such as financing, buying of materials, quality control, packaging, marketing and shipping which are partly provided for goods produced elsewhere, mostly in southern China.

The services sector, including finance and construction, involved trade totalling HK$141bn last year. When local services are included, it contributes approaching 70 per cent of the colony's GDP and employs about 60 per cent of the working population. The container port has overtaken Rotterdam as the busiest in the world, and the airport is the sixth busiest in terms of passengers handled.

But with 1997 looming, there is doubt about the future. So Hong Kong is developing as a city with mostly low-cost service and manufacturing industry investments which have payback periods in the early to mid-1990s and which can later be moved out fairly easily.

This raises the question of whether Hong Kong can strengthen its base and thus improve its survival prospects by developing as a centre for a wider part of the Asia-Pacific Rim region, than just China.

The port is probably Hong Kong's best economic insurance for the future, says **John Elliott**

"China is a huge market, but it is not always the best choice and it is not essential nor indispensable," says Professor Edward Chen, director of the University of Hong Kong's Asian Studies Centre. "We can diversify away from China. Since June 4, Hong Kong companies have become more aware that they must internationalise themselves."

Professor Chen says this could be done by diversifying away from the politically sensitive area of finance and instead becoming a regional centre serving a bigger geographical area for electronic data, communications, technology transfer, and legal and other services which help to attract company regional headquarters.

However, a vast proportion of the commitment and investment now going into Hong Kong is either of the quick pay-back variety, cashing in on the colony's current wealth, or it involves companies positioning themselves to tap China's vast potential market, however long the waiting period.

Japanese companies illustrate the main trends – "the China factor in these investment so far is limited, but everyone is aiming at China in the long-term," says Mr Yukio Satoh, Japan's Consul General. His government's statistics show that Japan's investment in all sectors during 1988 totalled US$1.66bn, up from US$1.07bn in 1987, and the largest Japanese capital investment in Asia.

By next year, 11 Japanese department store will be running a total of 19 stores and supermarkets, cashing in on both local consumers' and tourist demands, and also buying goods in China for their headquarters. One of the groups, Seiyu, is buying a 40 per cent stake in the local Wing On Department Stores. Another group, Yaohan, is moving its headquarters into the colony, partly as a long-term strategy to prepare for the China market.

There are 49 Japanese banks (28 with branches and 21 with representative offices) and 35 securities companies. They are highly mobile and, for at present, find Hong Kong's financial markets, which are much more free than Tokyo's, a good place from which to do international business, not just involving China.

Japanese manufacturers had provided 31 per cent of the colony's HK$26.17bn total (at original cost) foreign investment by the end of last year, according to Hong Kong government figures. This is the second biggest total after the US, which had 34 per cent, and before China (11 per cent) and the UK (8 per cent). The investment is using low cost labour in the colony, sometimes linked to operations in southern China, and some of the products cater for the colony's booming construction industry.

Four out of six foreign investments in manufacturing approved in the first two months after the June 4 Tiananmen Square crackdown were from Japan. Totalling HK$183m, they involved Daido Concrete, Daiwa Steel, NEC for software, and Lamda Magnetics. There are two notable exceptions to the short-term investment trend which involve projects with pay-back periods after 1997. One is a HK$5.5bn pledge by an international consortium led by Sir Y.K.Pao's Wharf Group for developing the colony's first cable television service and a second telecommunications network. This shows confidence that there will continue to be a high demand for telecommunications and for home entertainment after 1997.

The other is the government's new HK$127bn infrastructure development plan which includes large expenditure on the port as well as an airport running up to 2007. This demonstrates confidence that China will not be able to ignore such a facility, which has an average annual container traffic growth rate of 14

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Investment yields on Hong Kong property are high by international standards

Resilient property market holds most of its gains

YOU can't keep the resilient Hong Kong property market down. In the past few months it has been battered by the post-Tiananmen Square confidence crisis and is now threatened by an economic slowdown. But property values have bounced off the bottom, and remain quite close to the all-time peaks seen last spring.

Of the two only really weak sectors at present, one is the top end of the residential market, where the balance is affected by heavy supply as well as by political uncertainty, and prices may have eased by 25-30 per cent. Elsewhere, retail unit rentals in the prime tourist areas have been adversely affected by the fall in the numbers of visitors.

But in general, the market has been resistant enough for local property men to regain their natural bullishness very quickly, even though one or two observers detect a renewed weakening of the office market within the past month.

"We are heading back to normality," says Alan Hill, managing director of Jones Lang Wootton. "This is a real business town, so long as China leaves it alone."

"The Hong Kong market is still fundamentally sound, and cheap in world terms," argues David Davies, chairman and managing director of First Pacific Davies. "It is cheap compared to what it will ultimately represent as the New York of China. People should never write this place off. We're only on the edge of its potential."

Another property man who is anxious to play down the political risks is Lo Ka-Shui, managing director of the Great Eagle Company. "The world economy has more bearing on Hong Kong than the political situation," he says. "China needs Hong Kong as a middleman."

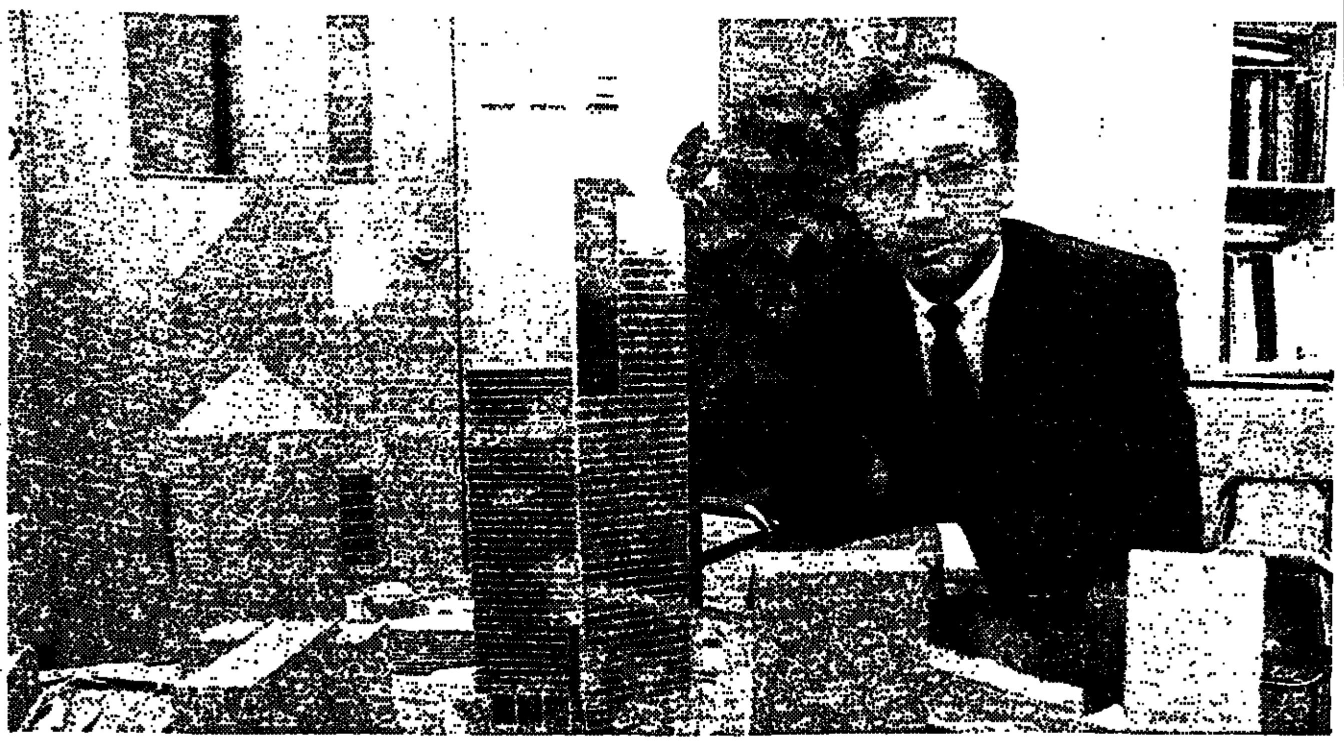
Mr Lo recently emerged as either the shrewdest or the most starry-eyed of Hong Kong property men when his consortium emerged as the winner of the tender for the most important development site to have come on the market in recent months in the prime Central district.

The Garden Road site, next to the towering Bank of China building, the tallest skyscraper in Asia, would probably have fetched between HK$4bn and HK$5bn for the Government had the tender not come a few weeks after the June 4 Peking massacre. The Government judged that a postponement might have jolted confidence even more.

As it was, Great Eagle, backed by Citicorp, which will take half the space in one of the two towers planned for the site, won with a bid of HK$2.7bn (£225m).

"Whenever there is political uncertainty the property market is always very cheap," Mr Lo says. However, he confesses that in the highly fraught conditions of the time, Great Eagle needed the encouragement of its international partners, who were more optimistic than local people. "That probably helped to influence our decision," he says.

Three or four months later, with the market looking much steadier, he reckons he is on to a winner. He estimates the development costs at HK$3,500 a square foot, but the current value of such a property would be over HK$6,000. The return at current prime rentals would be some 23 per cent. So rentals could halve, and the project would still generate more than enough to cover financing costs.



Dr Lo Ka-Shui, managing director of the Great Eagle Company, seen with a model of the Citicorp project.

Lo Ka-Shui reckons that far from being adventurous he is highly conservative. Hong Kong is the only significant business centre around the world where such high returns are still available.

"I want a yield higher than the cost of funds," he says, adding that Great Eagle's cost of money is some 9 per cent. "I cannot find that outside Hong Kong. I don't believe in relying on capital appreciation. That is speculation."

In general, the office market has appeared steady this autumn. Rentals almost doubled in 1988, but the cooling of economic growth this year has capped the boom. With an underlying growth of demand estimated at some 2m square feet annually, the restricted supply expected over the next couple of years should serve to support rentals, which at some HK$60 a square foot per month at the top end in Central are equivalent to City of London levels.

Growing congestion in the prime commercial districts is being addressed by plans to decentralise office developments, especially along the outer stretches of the Mass Transit Railway.

However, emigration is a theme which troubles property men – "it is something that concerns us all," admits David Davies, arguing that it is "morally wrong" for foreign governments to solicit for skilled workers in Hong Kong, with offers of passports.

In the residental market, all the same, there is little sign of any serious impact from the brain drain. According to Alan Hill, emigrants may be holding on to their apartments after leaving Hong Kong, or possible those leaving may be only part of the household. "We've certainly not been seeing armies of people saying 'We must sell'," *he remarks.*

At the top end of the residential market, prices are nevertheless well off the top, although whether this is due to nervousness by buyers or a more cautious lending policy by the banks is not clear.

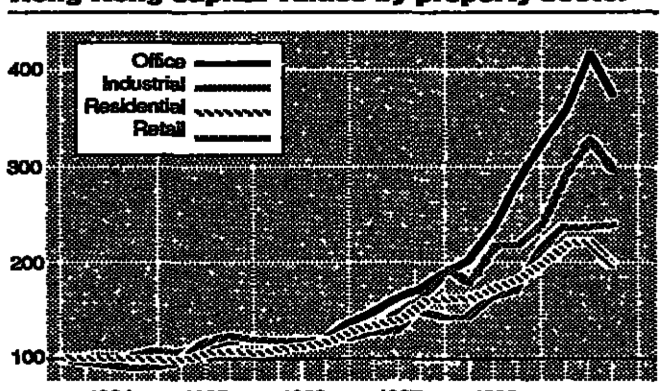
Average apartments in the 700 square foot bracket have seen no more than a 10 per cent dip. This is because, according to one sceptic, "they are bought by people who don't have the option to leave Hong Kong".

Investment yields on Hong Kong property are high by international standards, but this partly reflects the artificial nature of the property market, with the supply of development land being limited to 50 hectares a year.

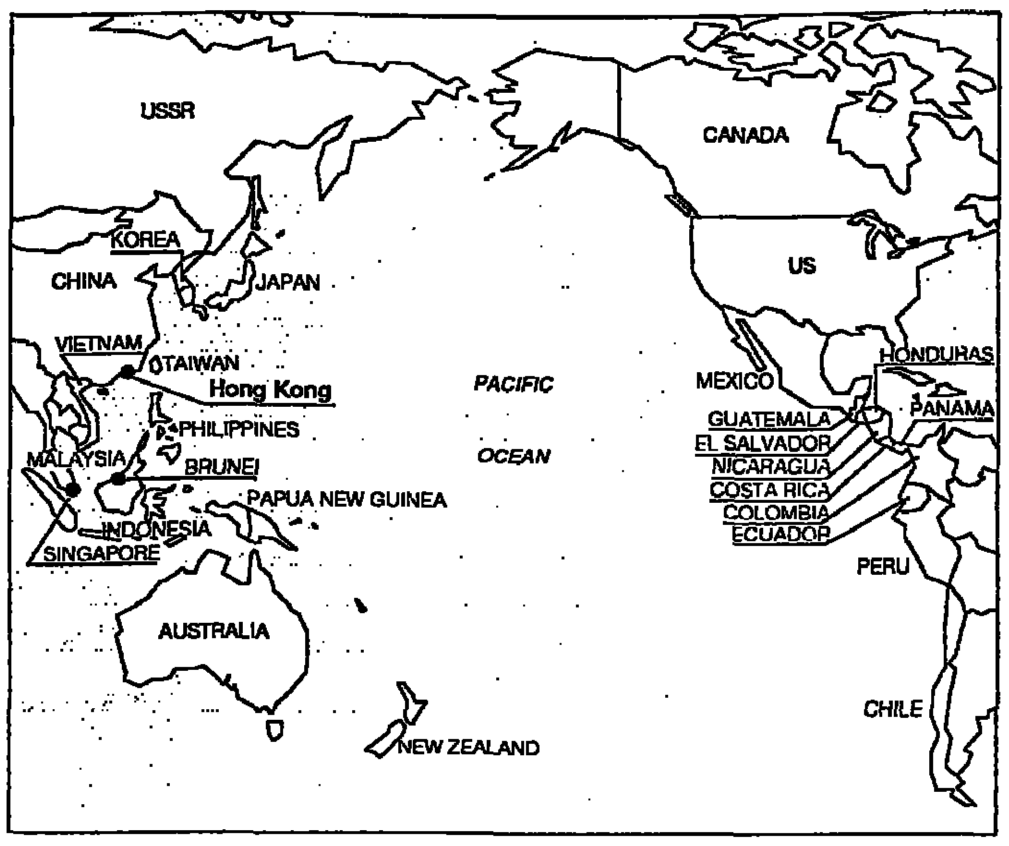
This adds an additional element of political uncertainty. Last month the Government announced ambitious new infrastructure proposals, including a new airport and extensive development of Lantau Island, while there are substantial land reclamation schemes for Central and Wan Chai districts and Kowloon.

It is assumed that such developments will be carefully phased in such a way as to protect existing property values. That is the way in which the Hong Kong Government has always behaved in the past. But it is a brave man who makes assumptions about what will happen after 1997.

Hong Kong capital values by property sector



Source: Jones Lang Wootton Research



Services sector

Continued from page 2

per cent and far outclasses anything at Shanghai, Guangzhou or elsewhere on the mainland.

Mr Simony Murray, managing director of Hutchison Whampoa which is controlled by Mr Li Ka-Shing and runs over half the container terminals' business through a consortium, says 80 per cent of its cargoes are for Hong Kong itself or China. He considers this an advantage because transit traffic unrelated to Hong Kong or China "has no value and can disappear overnight." He expects his group will "get its money back" on one terminal it is now building by 1996 and plans to bid for another next year. This commitment reflects the fact that the port is probably Hong Kong's best economic insurance for the future, given the risk that Peking's Communist and bureaucratic government will knock international confidence in the more transitory financial sector.

KEY FACTS ON HONG KONG

- **Status:** British colony; territory reverts to Chinese sovereignty on July 1, 1997.
- **Population:** 5.73m (97 per cent ethnic Chinese).
- **Currency:** HK dollar pegged at HK$7.80: US$1.
- **GDP per capita (current prices):** US$10,000 to 11,000 (est. 1989). (14.2% growth).
- **GDP growth:** 5 per cent, (1989 estimate)
- **Inflation:** 9.9% (August, 1989).
- **Total exports:** 1988, HK$493.1bn (30.4% growth), incl. domestic exports: HK$217.7bn (11.5% growth); re-exports: HK$275.4bn (50.7% growth).
- **Total imports:** 1988, HK$498.8bn, (32% growth).
- **Labour force (March 1989):** 2.73m incl: manufacturing: 814,000; wholesale, retail, export/import: 518,000; finance, real estate, business services: 241,000; hotels and restaurants: 189,000.
- **Unemployment rate,** mid-1989, seasonally adjusted: 1.3 per cent.
- **Land area:** 1,070 sq. km.
- **Population density:** 5,355 persons per sq km.

New airport and infrastructure projects help to rebuild confidence in colony's future

Bold plans under way

Kai Tak is already the world's sixth busiest airport

AN AMBITIOUS 15-year infrastructure construction programme costing HK$127bn at current prices has been drawn up by the Government to replace crowded airport and shipping facilities and to give Hong Kong's economy a boost in the mid-1990s when the pace of growth *is expected to* slow.

Other major projects are also being planned, including a third cross-harbour tunnel and a massive land reclamation scheme from the front of a new convention centre in North Wanchai to the central area.

If fully implemented, this would out-class most of the recent dramatic changes to Hong Kong's skyline.

The Government is making the most of these plans in propaganda terms as part of its effort to rebuild confidence in the future of the colony following the June events in China. It has been told by advisors that the planned new airport is financially viable, and senior government officials say they have had approaches from local and international banks and companies. The government hopes the private sector will finance between 40 and 60 per cent of the total HK$127bn.

The existing container port is the busiest in the world, ahead of Singapore and Rotterdam, with average annual growth of 14 per cent in the past five years. The new plans envisage increasing container throughput five-fold by 2006.

A new airport is urgently needed because the existing single-runway Kai Tak airport is already over-crowded and will probably reach saturation point between 1991 and 1993, depending on the rate of growth of passenger traffic.

With 15m passengers a year, it is the world's sixth busiest airport, but a 20 per cent annual rate of growth has slowed to 11-12 per cent in the past couple of months as a result of the situation in China.

The new airport is planned

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New port

Continued from page 3

at Chek Lap Kok on partially reclaimed land, off the island of Lantau. Its first runway is scheduled for opening early in 1997, significantly just before China regains sovereignty. A second runway is envisaged later to bring the total capacity to 80m passenger a year.

A new high-speed railway system and a six-lane motorway with a 1,400 metre feeder bridge form part of the associated complex transport system. There is also provision for an adjacent new town for at least 150,000 people.

This will mean that there will be three new airports in the Pearl River Delta during the 1990s. The Portuguese enclave of Macao, 40 miles from Hong Kong, is going ahead with a 3km single-runway international airport.

China's special economic zone of Shenzhen, adjacent to Hong Kong's has also started construction of a domestic airport with a 3.4km single runway.

So far, China has indicated that it backs all the projects. An article in the local branch of Bank of China's review on Hong Kong's HK$127bn plans recently supported the involvement of private sector and foreign investment.

It also said that drawings could be made from a special land fund, now totalling HK$14.8bn, which is being built up from proceeds of government land sales to provide reserves for the first post-1997 administration. The Government would like to use this fund, but has said that it is not essential.

John Elliott

John Elliott on Chinese business connections in Hong Kong

Slow beginning to the anti-corruption drive

WITH GREAT publicity, China's leaders have let it be known in the past year or so that they would stamp out corruption. In particular, they would wield a scythe through the mass of companies small and large that had been spawned in Hong Kong by mainland companies, agencies and provinces.

The first to be dealt with, as an example to the rest, was to be Kanghua Development Corporation which had been founded in Peking by Mr Deng Pufeng, son of Deng Xiaoping, China's top veteran leader. Kanghua was to close its Hong Kong offshoot, Bring Fast.

Today, at the China Underwriters' Centre in Gloucester Road, Hong Kong, Bring Fast is still open. Mr Lin Yan, the chairman, still answers the phone and avoids questions about his job. He has said he is awaiting instructions from Peking.

Probably less than a third of these businesses — which may number up to 4,000 — are officially authorised

"If Kanghua can weather the purge and even survive with the new leadership in place, what is the future of the policy?" asks one diplomat.

Companies such as Kanghua form part of a growing mainland network in Hong Kong. Estimates of the total number of businesses vary from 1,500 to 4,000 of which probably less than one third are officially authorised.

Some of the big ones have substantial investments in local Hong Kong corporations. China International Trust and Investment Corporation has a 12.5 per cent stake in Cathay Pacific Airways, while a consortium led by the Bank of China and China Resources is in Sir Y.K.Pao's fledgling airline, Dragonair. A mainland presence has also been considered an asset for important infrastructure projects with pay-off periods running after 1997.

All this gives Peking a growing indirect "say" in the affairs of Hong Kong. There is already a Peking representation on the local association of banks and the stock exchange council. Both small and large companies are represented in countless chambers of commerce, including the American Chamber, and they can also influence thinking through ordinary commercial contacts.

These involvements have for many years been regarded as beneficial to Hong Kong because they help to pull Communist China more into the capitalist world and because they demonstrate a growing mainland commitment to the colony which is important for both domestic and international confidence.

Guesses about the total investment involved range at anything between HK$10bn and HK$20bn. Mrs Anson Chan, Hong Kong's Secretary for Economic Services, says that China, overall, "may well be the largest single external investor in our economy."

The only firm figure comes from Hong Kong Government statistics. These show that China has HK$2.8bn manufacturing investment, which is 11 per cent of the total and makes it the third biggest investor after the US and Japan and before the UK.

At the top of the companies are well-known new names like CITIC, Everbright, and the much older Bank of China, China Resources, and China Merchants Steam Navigation.

Such companies started by performing respectable trading functions for the mainland, but have mushroomed since China's "open door" policy started in 1979, making Hong Kong the "window" for a range of business activities.

Every province in China now has its Hong Kong trading organisations. Many have been set up by mainland officials with the help of relatives living in the colony and some are called *"pi bao"* or "brief case" companies because they have a registered name but no office.

Many are a "window" for smuggling, graft, under-invoicing, foreign exchange fiddles, and other forms of corruption. The big ones, and a large body of Hong Kong business opinion, want the small ones shut down because they help to worsen the colony's image.

Kanghua was one of five corporations fined in Peking three months ago for foreign exchange and taxation violations after a wide-ranging audit. The others included CITIC and Everbright Industrial. Some of them, including CITIC, have had to dismiss senior executives who are related to senior government officials.

Despite its problems, CITIC in Hong Kong now appears to be confidently buoyant and Mr Wang Guangying, a veteran capitalist who is the Hong Kong-based chairman of Everbright, says he has been told "that there will be no change." Investigations are, however, still in progress at Everbright's Peking branch office.

Everbright recently launched a Japanese watch joint venture in the Pearl River Delta economic zone of Zhuhai adjacent to Macao and it is planning four joint ventures in China, including an electrodes plant for the steel industry and two bridges over the Yangtse.

It is also looking at two property deals in Thailand and Hong Kong. Mr Wang acknowledges, however, that China's economic problems could prove a setback and says that banks are only prepared to lend on a case by case basis instead of providing lump sum advances.

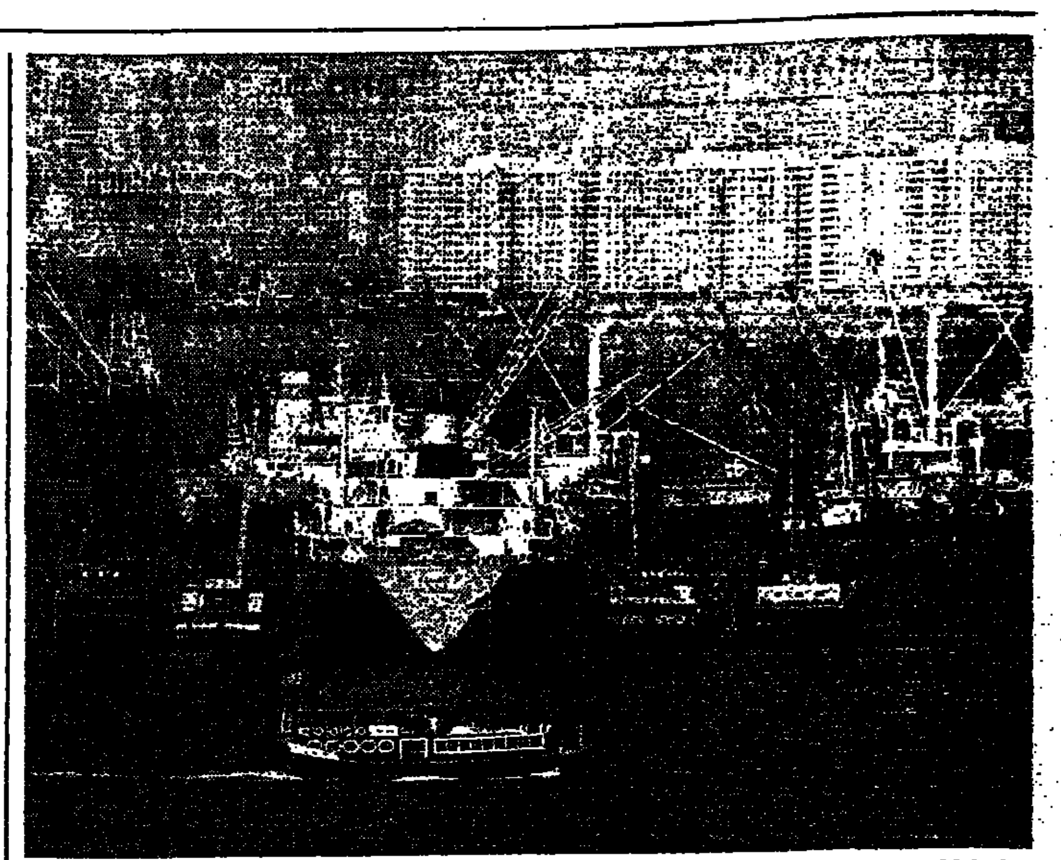
The local office of China's Xinhua news agency, which acts as a de facto embassy in Hong Kong, is believed to be in charge of trying to bring the companies into line. Officials say that each locality in China is now supposed to have only one company in Hong Kong — the rest should be closed.

Mr Yu Fei, vice governor of the southern Chinese province of Guangdong, which is adjacent to Hong Kong, has been reported saying that more than 200 Guangdong companies are to be shut.

This network of China-based organisations gives Peking a growing indirect "say" in the colony's affairs

So far, there is no sign of any major change in Hong Kong's acceptance of the mainland involvement. The people of Hong Kong know they have to live after 1997 with Peking and that the commercial involvement must be an advantage.

Nevertheless, the activities of the companies do mean that Peking will be able to pull powerful strings indirectly through the business community and so interfere in Hong Kong's affairs, irrespective of the degree of autonomy China pledges in constitutional terms.



Ships at the Victoria Harbour deep-water anchorage — and, in the background, the high-rise steel and glass tower blocks, reaching down to the harbour's edge.

□ MRS ANSON CHAN, above, Hong Kong's Secretary of Economic Services, says China, overall, "may well be the largest single external investor in our economy."

□ On the issue of whether Hong Kong can develop as a centre for a wider part of the Asia-Pacific Rim region, Prof. Edward Chen, (right), director of the University of Hong Kong's Asian Studies Centre, says: "China is a huge market, but it is not always the best choice and it is not essential or dispensable . . . since June 4, Hong Kong companies have become more aware that they must internationalise themselves." *See story, page 2: Business centre based on a deep water port.*

PROFILE: CITIC (HONG KONG)

Capitalist-style operation is surprisingly buoyant

FOR A COMPANY which is supposed to be labouring under a cloud of repression from Peking's new hardline leadership, China International Trust and Investment Corporation's capitalist-style operation in Hong Kong seems surprisingly buoyant and entrepreneurial.

It laid low for a couple of months after the Tiananmen Square crisis. China's general problems have also made it difficult to raise long-term money such as a HK$13bn ten-year loan it arranged in March. But other funds have been raised and new joint ventures are now being put together including a bid for a HK$800m chemical waste disposal plant in Hong Kong, a HK$600m joint venture to sell Hong Kong electricity to the Portugese enclave of Macao, and a exporting tie-up with Waxi city near Shanghai.

CITIC is the most westernised of all Chinese companies in Hong Kong

The stigma of corruption, which stemmed from CITIC's parent organisation in Peking being fined Yuan 18.8lm for foreign exchange violations in August, has been swept aside following a recent visit by Mr Rong Yiren, a former Shanghai capitalist who is chairman of CITIC Holdings, the parent company.

Mr Yiren told the Hong Kong staff that there was no change in CITIC's overall operations. He said it was a big business and should go forward and behave accordingly on the international scene.

Whether that was over-confident, remains to be seen. There are unsubstantiated rumours that Mr Yiren might go on leave abroad. However, there was a far more positive signal a month ago when most of China's top leadership, including prominent hardliners, turned up alongside an impressive array of foreigners at CITIC's tenth anniversary party in Peking.

CITIC was founded in Peking in 1979 at the start of the "open door" policy and set up a representative office in Hong Kong a year later.

In 1987, CITIC Hong Kong (Holdings) was formed as a wholly owned subsidiary and last year it produced HK$256m profits, after tax. A year ago it considered floating itself on Hong Kong's stock exchange but rejected the idea, mainly because there would be little financial advantage in entering a very flat market. Of all China's companies in Hong Kong, CITIC is the most westernised. Only 20 of its 120 staff are seconded from Peking which has supplied only one of its seven executive directors. The finance director is even a westerner. There is apparently no sign so far of this balance changing, nor of the Peking parent's privileged ranking directly under the State Council being removed.

Having quickly adapted to capitalist ways, CITIC Hong Kong made unexpectedly fast profits on three property deals last year during a boom. It then sold most of its other property interests earlier in the year before the Tiananmen Square events knocked the market.

It has assets of around US$600m-700m, and its activities are almost all concentrated in Hong Kong or Macao apart from three power station projects in China. Aviation takes up about half of the investment portfolio through a 12.5 per cent stake in Hong Kong's Cathay Pacific Airways which has a market value of about HK3bn.

There is about 10 per cent in shipping, 12 per cent in property which stood at 18 per cent till the sales earlier this year, and 6 per cent in Hong Kong's second cross-harbour tunnel company. Manufacturing projects so far only involve motor spares and personal computers.

In Macao there is a cement plant and a 20 per cent stake in Macao's Companhia de Telecommunicacoes bought in March from Cable and Wireless which controls the company. Two months ago CITIC was in a consortium led by Hutchison Whampoa which failed to win Hong Kong's first cable television franchise.

Future investments will show an emphasis on infrastructure and transport and on strategic industries producing manufactured goods and raw materials urgently needed by China. This is in line with Peking's own priorities and means that CITIC will consider investing in new port facilities in both Hong Kong and Macao, and in Hong Kong's new airport.

The company made unexpectedly fast profits on property deals last year

The money-raising problems are worst in Tokyo. Negotiations started there on two private placements for three and seven year loans totalling US100m before June 4, but have not yet gone through. CITIC in Peking, however, recently raised US$50m five-year money in Hong Kong with a consortium led by Bankers Trust.

Although money will be tight, there are not expected to be any major financial problems unless China's credit rating worsens or there is a fresh attack by Peking hardliners.

John Elliott

Growing exodus raises problems for local employers

The brain drain has become big business

LAST MONTH'S flashy *"Money '89"* exhibition in the colony's new Convention Centre was full of companies offering foreign property and business deals, plus legal advice, to help people find alternative places of abode before China regains sovereignty in 1997.

Whether the dream is domicile in Malta, Spain, Portugal, the Phillipines, Taiwan, the US, or the most frequented destinations of Canada and Australia, there were stacks of glossy brochures and smooth-talking lawyers and property sales ladies. Many have set up offices in Hong Kong's central district to pursue their clients.

There is so much money involved that it is even significant for countries' balance of payments. Canada estimates that its total of 22,800 migrants from Hong Kong last year took CAN$2bn-3bn into the country as investment and personal expenditure.

Australia received at least AUS$510m, and probably far more from 3,300 migrants arriving under its business scheme alone in 1988-89, excluding personal expenditure and funds remitted by 6,600 other arrivals.

Aggressive recruitment campaigns have also been launched by foreign companies, and even countries, seeking professional and skilled workers who are willing to move home if a passport is part of the employment package. This group ranges from Qantas, the Australian airline which is poaching more than 80 maintenance engineers from Hong Kong airport, to Singapore which has issued provisional passports to more than 7,500 technicians and skilled workers.

The least active country is the UK which is at the heart of the problem. It has refused to give full passports carrying a right abode to 3.25m or more of Hong Kong's 5.7m population. Because of this, the brain drain has built up in the last few years as people go abroad to establish rights of abode as an insurance against the future after the British withdraw.

Last year's peak exodus figure of 45,800 is expected by the government to drop to 42,000 this year, though it could turn out higher. The government is forecasting 50,000-55,000 or more from next year, by which time people frightened by China's Tiananmen Square will have begun to obtain visas. This compares with an annual figure hovering around 20,000 in the early and mid-1980s.

Government figures show that about 25 per cent of the total are employed adults, including entrepreneurs as well as salaried staff.

Many professional and skilled workers are willing to move overseas if a passport is part of the employment package. Canada and Australia are the most frequented destinations. Above: people queue for visas outside the US Consulate in central Hong Kong.

Some surveys have suggested that 25-30 per cent or more of the population want to leave some time before 1997. Standard Chartered Bank, the colony's third largest retail bank has found that 50 to 60 per cent of its senior 150 staff have applied for an residents' visa abroad, or are planning to do so.

"A lot of them however say they are only doing so because the others are doing it," says Ms Eunice Wong, the bank's personnel manager.

The actual number departing depends on the quotas and policies of recipient countries. Hong Kong has appealed to the US, which has a queue of 50,000 Hong Kong people with valid visas, not to raise its annual intake rate of 5,000.

The US is the most sought-after destination, but its visa restrictions means that it is only the third biggest recipient. Last year, Canada took about 22,000 people and Australia about 10,000.

Most of those who go are in the 25-45 age group. The government is surveying their jobs and qualifications to help it design university courses for an expansion plan designed to boost the number of higher education places available from 38,000 now to 67,000 by the mid-1990s.

Accountants, computer programmers, financial analysts, and nurses are the most common employed groups, while doctors are among the leading groups using their personal wealth to be accepted as business migrants.

The proportion who return having stayed away for long enough (usually three years) to obtain a passport is not known, but is thought to be well under 20 per cent. The Government hopes that the number will increase in two or three years time when recent emigrants will have been given passports, but there is only limited optimism about this. That is why the government is launching new university and youth development programmes to raise the standards of the next generation of school-leavers and to try to make Hong Kong a more attractive place of abode.

In the meantime, employers face increasing problems as the exodus rises and salary costs rocket. There are plenty of good candidates to fill the vacancies, but they are less skilled and experienced. This is creating problems which companies have to tackle as a major management task. Sometimes there are spin-off benefits such as faster than planned introduction of automation.

Much of this could be avoided if people could be given foreign passports without having to leave Hong Kong. This will be the aim of a nationality package to be launched within the next couple of months by the British government which will offer passports to people probably chosen on a points system similar to that used by other countries' immigration authorities.

The number has not yet been decided but is rumoured to range between 100,000 and 300,000, erring on the lower side. The aim will be to keep the "best and brightest" of Hong Kong's young professional, business and civil service workers in the colony. This should push the brain drain down the employment ladder to less crucial people. It could also actually reduce the outflow because fewer people might meet recipient countries' immigration criteria.

Companies, sometimes with help from individual countries, have similar ideas. France has agreed to issue passports to between 50 and 80 Hong Kong employees of its banks and other companies and this number might grow.

Australia, Canada, West Germany and other countries have been asked to do the same by their companies, but all have legal problems. Singapore's passport scheme does not require people to leave for five, or perhaps ten years. Canada is studying a similar plan.

Some employers such as the Hongkong Bank and Standard Chartered try to re-employ some of their staff in their new countries. Other smaller locally owned companies have said their expansion plans abroad are partly directed at employing after migrants.

But such initiatives have only a limited impact. A continuing high outflow seems inevitable, and the net result will be that companies will have to bring in more and more expensive expatriat staff, probably from Asia as well as the traditional sources of Europe, Australia and the US, to keep business going.

John Elliott

More manufacturing shifts across the border into China

Importance of re-exports continues to grow

IN THE ten years since the start of China's open-door policy, Hong Kong's re-export trade has grown at an average real rate of 25.7 percent every year, compared to 10.6 per cent for domestic exports.

Last year the value of re-exports finally out-stripped Hong Kong's own domestic exports for the first time since the late 1940s, making up 56 per cent of the total. This is mostly testimony to the renewed importance of the British Colony as a trading post between the rapidly industrialising southern coastline of China and the rest of the world. It also reflects the shift by Hong Kong companies of a lot of their labour-intensive manufacturing activities across the border into China.

The importance of re-exports has continued to grow this year, at a time when the rate of growth of Hong Kong's trade has been decelerating markedly, reflecting a slower increase in demand in major markets for key products, such as garments and toys.

Hong Kong's domestic exports grew by only 4.8 per cent during the first nine months of this year. At the same time, re-exports grew by 32.1 per cent, to make up 60.8 per cent of the total.

Peking's economic austerity measures have hurt Hong Kong's re-exports to China by dampening consumer demand there, but local economists regard the global outlook as fairly encouraging as long as major markets, such as the US and the European Community, upon which both China and Hong Kong rely very heavily to fuel their export growth, manage a "soft landing."

The austerity programme is not expected to hurt re-exports related to outward processing by Hong Kong companies, because China's export industries are continuing to win the support of the authorities who are battling with a severe foreign exchange shortage.

Re-exports are those goods imported and later re-exported without undergoing any manufacturing process, though they may be checked for quality or packaged. They are providing a valuable boost to Hong Kong's economic growth, particularly since the gap between the value-added component of domestic exports and re-exports is not as great as in most other countries.

This is due to two reasons. First, Hong Kong's domestic exports have a lower value-added component than is typical in other countries, since nearly all raw materials, and large quantities of parts and components, have first to be imported.

Second, the value-added component in re-exports is unusually high. A survey of Hong Kong manufacturers and trading companies involved in China-related re-exports, carried out by the Hong Kong Trade Development Council, has concluded that the average gross profit margins for the Hong Kong companies amounts to around 15 per cent.

This figure includes not only the re-exporters' net profit margins, but also costs relating to marketing and product development expenses, banking and insurance charges, transportation and storage costs, and other related expenses. The council noted that most of these expenses are incurred in HongKong, and that the re-export margin is therefore earned by Hong Kong companies.

It therefore argues that this re-export gross profit margin largely reflects the value-added of re-export trade to the Hong Kong economy.

"Re-exports" are goods imported and later re-exported without undergoing any manufacturing process, though they may be checked for quality or re-packaged.

Of those companies surveyed which had industrial co-operation with China, around a third of their employees in Hong Kong were working solely or partly in relation to their production in China. The move of processing to China had allowed them to concentrate upon business negotiation, marketing, trade documentation, product design, quality control and research and development – all contributing significantly to the local economy, even though their products were now being sold as re-exports, instead of domestic exports.

In addition, the local transportation sector benefits from the large quantities of goods which pass through the port as trans-shipments, not appearing in Hong Kong's trade statistics, but adding to the volume of port traffic.

The Hong Kong Government estimates that of those re-exports going into China, 63 per cent are for China's own use and 37 per cent for outward processing as re-exports.

China is the largest market for Hong Kong re-exports, taking up HK$52.6bn or 33 per cent of all re-exports passing through the territory in the first half of this year.

The main areas were textile yarn and fabrics, electrical machinery and artificial resins and plastic materials, the latter reflecting the relocation of the Hong Kong toy industry in Guangdong.

The other big market for re-exports is the US, taking 18 per cent of the total, while Japan accounts for another 6 per cent. China was also the largest source of re-exports, with goods worth HK$81.9bn

In this category, the major items were clothing, textile yarn and fabrics and miscellaneous manufactured articles. Barring a major reversal of the open-door policy, re-exports are likely to remain the larger slice of total exports, with hundreds of millions of dollars worth of raw materials, machinery and manufactured goods moving each day to and fro across the border between Hong Kong and China.

Hong kong's export-led economy is not only benefitting from the territory's role as the main seaport on China's southern coast, but from the involvement of local businessmen in providing a large part of the capital investment and management expertise for Guangdong's manufacturing sector.

Michael Marray

RE-EXPORTS BY MARKETS (in value terms)

	First half 1988 ($m)	First half 1989 ($m)	Growth rate (%)	Share of total in first half of 1989 (%)
All markets	117,321	161,096	37	100
China	39,044	52,556	35	33
United States	20,492	29,787	45	18
Japan	7,294	10,221	40	6
Taiwan	6,516	8,159	25	5
Republic of Korea	5,686	6,760	19	4
GDR	3,509	5,723	63	4
Rest of the World	34,780	47,890	38	30

IMPORTS AND EXPORTS

Calendar year to date	Jan-Sep 1989 HK$(m)	Jan-Sep 1988 HK$(m)	Increase HK$(m)	%
Domestic exports	163,928	155,373	7,555	4.8
(% of total exports)	(39.2%)	(44.8%)		
Re-exports	254,788	192,948	61,840	32.1
Total exports	418,716	349,321	69,395	19.9
Imports	420,230	354,603	65,627	18.5
Trade balance	−1,514	−5,282	3,768	

The industrial base is being restructured, says **Michael Marray**

A move towards higher value-added products

FACED by an acute labour shortage and rising wages, Hong Kong's industrial base has been through a major restructuring in the past few years.

It has been striving to upgrade production towards higher value-added goods at home while shifting low-end production across the border into China's neighbouring Guangdong Province, or elsewhere in Asia.

For the moment, new investment in China has dramatically slowed. Though it is business as usual for an estimated two million people in the Pearl River Delta already working on Hong Kong-related processing, local businessmen are looking at further diversification into low-wage countries such as Thailand and the Philippines.

At home, the emphasis is on increased automation, such as computer-aided design in the textiles and garments sector, and the production of more sophisticated products in the electronics industry.

Components such as memory chips, printed circuit boards and finished goods like compact disc players and personal computers, are now to be found with a made in Hong Kong tag.

However, the colony still lags well behind other Asian countries in the field of high technology, underlining the Hong Kong entrepreneur's traditional reluctance to commit money to research and development, relying instead on flexibility and short-term paybacks and being involved in original equipment manufacturing for big American and European buyers.

Hong Kong has yet to produce a recognisable brand name. The Hong Kong Government has come in for some criticism for failing to take a lead in providing a strategy for local industry, concerning itself instead with providing educational and training facilities, as well as space on industrial estates for companies with special requirements such as clean room conditions or with heavy equipment unable to go into Hong Kong's traditional multi-storey factory buildings.

Industry is faced by rising wage costs and labour shortages.

Within this basic infrastructure, businessmen are left to decide for themselves what to produce – "we can't necessarily compete in the hi-tech area," argues Mr Andrew Leung, deputy director of industry. He doesn't regard huge research and development programmes as being either feasible or necessarily of vital importance, but instead wants to see available technology applied to making high-quality and marketable consumer goods.

Nor is the high technology message contained in the industry department's inward investment promotions. Any appropriate technology which will enhance local industry is encouraged, irrespective of whether it is in electronics, chemicals and pharmaceuticals or simply better production technology in existing industries.

Though the electronics sector offers the most potential for growth, with domestic exports valued at HK$55.6bn in 1988, it still remains second in importance to the textiles and garments industry.

Around 360,000 of the colony's industrial workforce of 840,000 workin the huge multi-storey garment factories in the industrial heart of Kowloon, producing domestic exports worth HK$83bn last year.

Despite complaints about the labour shortage and rising wages, which have led to pressure for labour to be imported from other countries, Hong Kong's substantial textile quota allocations are still being used up.

More expensive clothes are now being made in order to fuel profits growth within the quota-limits based on volume.

These industries have been largely unable to join the exodus across the border into neighbouring Guangdong province. Their exports are governed by country of origin regulations which set out where particular processes must be carried out in order to be gain entry to the United States and European community markets under Hong Kong quota.

Other industries, such as the important watch and clock sector and toy manufacturing have moved much of their production to China, and the latter is the most dramatic example of the shift across the border. Domestic exports of toys fell by 19 per cent to HK$10.5bn last year, while re-exports leapt by 75 per cent to HK$15.9bn reflecting this shift of production.

Thailand is a favourite location for new investment from local toy manufacturers. This shift offshore worries some people who see Hong Kong losing its manufacturing base as the service sector expands. But even when production moves elsewhere in the region, Hong Kong usually tends to remain the headquarters for activities such as product-design and testing, quality-control and the manufacturing of more sophisticated parts and components.

In addition, for many companies, new plants overseas represent expansion, rather than a replacement of existing capacity in Hong Kong.

However, there is a question mark over whether Hong Kong businessmen will continue to commit themselves to further investment in newplant and machinery because of worries about 1997.

Lack of confidence in the future may make investment horizons become even more short-term, harming the kind of large-scale investment seen in sophisticated industries such as electronics

As long as quota limits continue to restrain new low-cost competitors in the region, Hong Kong should remain one of the world's leading suppliers of clothing. But in other industries it cannot afford to lag behind Asian neighbours which are pressing ahead into newer and more sophisticated products.

Exports to the European Community

Manufacturers anxious over spectre of Fortress Europe

HONG KONG'S exports to the European Community have grown over the past few years to reach HK$22bn or 20 per cent of the colony's total domestic exports in the first half of 1989.

It is therefore with some unease that local manufacturers view the progress towards the creation of the single market in the EC by the end of 1992.

Hong Kong manufacturers are convinced that they have found evidence of "Fortress Europe" in the making, and point anxiously at the spate of anti-dumping investigations initiated in the past two years from Brussels against locally-made products ranging from video and audio tapes to photo albums and denim cloth.

Following the imposition of anti-dumping duties, exports of video tapes to the EC have already plunged by 70 per cent to only HK$70m in the the first half of 1989, and the latest investigation against denim cloth now threatens another two hundred million dollars worth of sales per year, and strikes at the very heart of the textiles and garments sector which is the British Colony's single biggest industry.

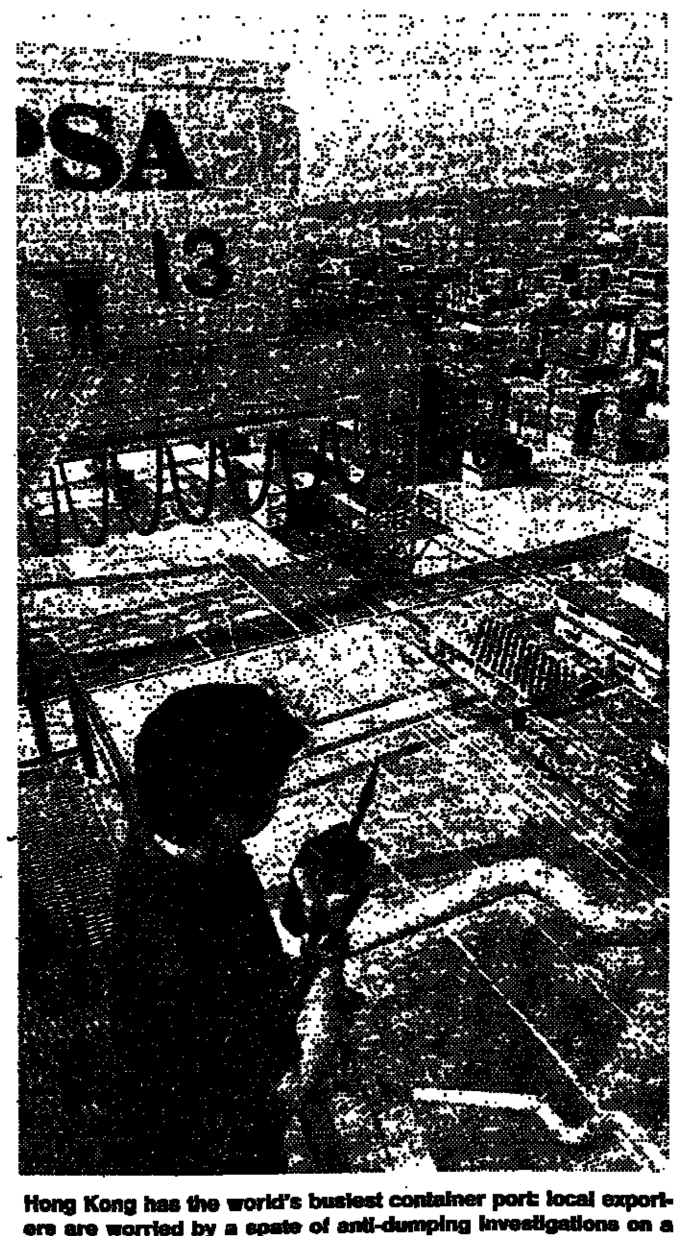
Companies from almost every country in the community have joined together to lodge the denim complaint, which is a particular cause for concern, since exports of Hong Kong-made cloth to the European Community are already restricted by quota under the Multi Fibre Arrangement (MFA).

"We feel there is an important principle at stake," said Mr Stuart Harbinson, deputy director general at Hong Kong's trade department, arguing that the MFA should itself protect European industry from possible market disruption, and pointing out that signatories to the MFA are supposed to work within the bilateral treaty to find relief measures before seeking alternative routes such as anti dumping actions.

"The anti-dumping measures are being used as protectionist harassment, both by the EC and the US," said Mr Henry Tang, managing director of Peninsula Knitters, who expects to see more actions in the future.

The US recently announced an investigation of its own into acrylic sweaters – another product covered by the MFA.

Mr Tang voices the commonly-heard argument locally that Hong Kong companies are generally too small to engage in dumping, enjoy no subsidies from government, have no substantial domestic market with which to subsidise exports.



Hong Kong has the world's busiest container port: local exporters are worried by a spate of anti-dumping investigations on a wide range of products, initiated from Brussels in the past two years. Fears of a Fortress Europe are fast gaining ground.

In the wake of duties of up to 21.9 per cent imposed on video tapes earlier this year, local manufacturers who previously failed to defend themselves properly are now becoming more organised, in the face of what they see as arbitrary and over-stated estimates of production costs arrived at by European Community investigators, to which duties are then added to bring Hong Kong prices up to what the EC considers fair levels.

"The mere fact that anti-dumping proceedings are in train places the exporter at a disadvantage," said Mr Roderick Chalmers, partner at Coopers and Lybrand, which is involved in defending a number of companies, because buyers loath to place orders which may later become subject to duties.

However, he notes that local manufacturers are becoming more organised in defending themselves, with industry bodies playing a co-ordinating role.

The spectre of Fortress Europe has arisen at a time when Asian exporters also feel under threat from the United States, whose free trade pact with Canada is perceived as another move towards the creation of a trading bloc which will eventually put up barriers to the outside world.

This has speeded up tentative moves within Asia towards greater economic cooperation, but the Hong Kong authorities remain firmly opposed to any creation of what might be seen as a rival Asian trading bloc to mirror developments in the EC and North America, and are committed to fighting for global free trade, including using Hong Kong's membership of the General Agreement on Tariffs and Trade (GATT), to work within the Uruguay round for improvements to the GATT anti-dumping code.

Mr Harbinson is himself yet to be convinced that a new era of protectionism is underway, and so far sees private industry in Europe succesfully pushing the commission into instigating anti-dumping investigations.

"The case for Fortress Europe has yet to be proven," he said, arguing that Europe still has considerable self-interest in promoting free trade and maintaining global access for its own exports.

"We hope the creation of the single market will be of benefit to Hong Kong," he said, "but having said that, we are on the lookout. The attitude towards Hong Kong on anti-dumping will be one of the barometers of how the battle is going," he said.

Local manufacturers, who unlike the big Japanese companies, are mostly too small to set up substantial processing plants within Europe in order to guarantee market access, are so far less inclined to give Europe the benefit of the doubt, and the idea of Fortress Europe is fast-gaining ground in the colony.

Michael Marray

Other banks benefit from the erosion of Bank of China's deposit base, says **Michael Marray**

Windfall for local and foreign banks

IN THE aftermath of the June 4 crisis in China, long queues formed outside the many Hong Kong branches of the Peking-controlled Bank of China and its 13 sister banks, as angry local people withdrew their savings in protest against the crackdown on the student democracy movement.

The protest was short-lived, and faded out shortly after the Hong Kong Government warned against a possible destabilisation of the entire local banking system.

In a matter of days, the Bank of China group lost an estimated HK$20bn or ten per cent of its deposit base. This provided an unexpected windfall for local and foreign banks with big branch networks in the British colony, who have since held on to most of the money.

"I think that most local banks benefitted," said Mr John Gray, finance director for the Hongkong and Shanghai Banking Corporation, which together with its subsidiary, Hang Seng Bank probably won the largest share of the deposits fleeing the Bank of China.

Mr David Grant, who heads the corporate banking division for the Standard Chartered Bank also points to stronger retail business because of the Bank of China's woes.

The Bank of China has won praise from Mr Anthony Nicolle, Hong Kong's banking commissioner, for the way in which it moved to get its balance sheet in order after the crisis, but the group is now clearly on the defensive after several years of aggressively expanding its marketshare.

It professes to be more cautious on Hong Kong property loans, but the loss of cheap funding through the erosion of its deposit base has forced it to adopt a less aggressive stance in areas such as home mortgages.

Even without these gains at the expense of the Bank of China, business would have still been good for the banking sector as a whole, and the 14-15 per cent profits growth, reported for the first half, should be comfortably maintained for the year as a whole.

Even if a downturn does come, locally incorporated banks are well-capitalised and closely supervised, having come under capital adequacy rules in September last year. These are being tightened from December 31, when Hong Kong will put into place a minimum 8 per cent ratio two years ahead of the international timetable agreed upon by the Basle committee.

Presence of world's largest 500 banks in Hong Kong

World ranking[1]	Licensed overseas banks in Hong Kong		Licensed deposit-taking companies owned by overseas banks[2]		Registered deposit-taking companies owned by overseas banks[2]		Local representative offices	
	1987	1988	1987	1988	1987	1988	1987	1988
1 – 20	18	19	3	3	18	18	1	–
21 – 50	25	25	5	4	21	18	3	3
51 – 100	33	31	4	4	22	21	6	9
101 – 200	15	21	1	1	16	14	29	21
201 – 500	11	12	5	5	22	21	41	49
Others	18	17	2	2	34	33	63	70
	120	125	20	19	133	125	143	152

1. Top 500 banks/banking groups in the world ranked by total assets less contra items. Figures for 1987 and 1988 are extracted from The Banker, July 1987 and 1988 issues. 2. Figures in these columns represent the number of deposit-taking companies which are branches or subsidiaries of overseas banks, classified in accordance with the world ranking of these overseas banks.

Source: Commission of Banking

Banks balance sheets are already comfortably within the new guidelines. However, some bankers argue that by keeping ahead of international rules, Hong Kong is putting its own banks at a disadvantage compared to subsidiaries of foreign banks operating here.

Mr Anthony Nicolle argues that Hong Kong is still living down the bank collapses of the mid-1980s. By bringing in Basle standards ahead of time it will tell the world that Hong Kong has got a soundly capitalised system, he says — "it is no pain for any of them."

The recent statement from the Hongkong Bank that it may move towards disclosing its inner reserves has put the future of secret inner reserves under the spotlight locally, but the Government has no intention of making other banks follow suit should the Hongkong Bank unilaterally decide to take the lead.

However, the Government's Standing Committee on Company Law Reform is working on guidelines for banks and auditors on how transfers are treated. This will, for example, prevent a bank from reporting an operating profit with the help of transfers out of reserves when it may have in fact suffered a loss for the year.

Such problems are unlikely to arise for most banks in 1989. Despite a current mood of caution, local bankers say they have yet to feel any significant negative impact on their bottom lines.

In Hong Kong the big post-June 4 worry was a possible property collapse. Property development and home mortgage-lending amounts to HK$190bn, representing over 30 per cent of total loans and advances. However a property slump has failed to materialise, with prices creeping back to within ten per cent of pre-June levels for medium-sized flats.

Hong Kong home-owners are better paid and less heavily borrowed that they were in the speculation-led property crash of 1982, and with this in mind, Mr Nicolle has suggested that banks concentrate upon cash flow and ability to pay, rather than focussing on the value of collateral.

Indeed, the slump had one positive side effect of taking speculative froth out of the market, something that had been the subject of warnings from both the Government and the Hongkong Bank during the previous twelve months.

Nor have there been many problems with existing loans to China ventures, even though new loan-demand has dried up.

For many property and hotel joint-venture loans in China, cash flow is going to be a problem — and banks from Hong Kong and overseas are already negotiating over the rescheduling of loans. However, Mr Nicolle says he is comfortable with the position of Hong Kong banks — and that problems with their loan portfolios are relatively minor.

For most banks the problems remain the familiar pre-June ones of the brain-drain and rising overheads such as rental costs and higher wages, rather than defaults and crisis management as seemed possible five months ago.

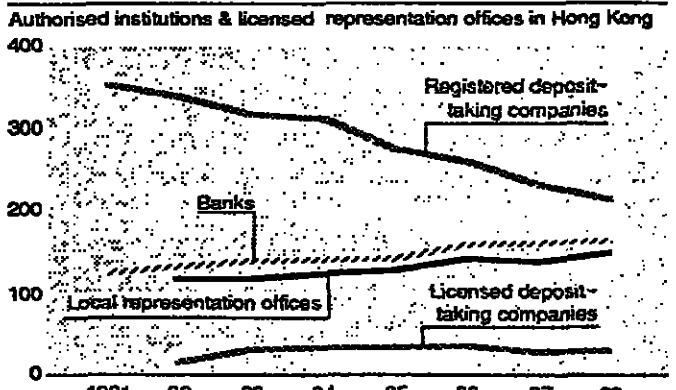
The brain drain problem will be exacerbated by June 1, but Mr John Gray of the Hongkong Bank points out that inflationary worries and an overheated economy which were the main pre-occupations of Hongkong earlier this year may actually ease as a result of the new atmosphere of caution.

In the meantime, loan-demand in Hong Kong continues to be quite strong. Since June 4, a number of big loans have been successfully put together, including a mammoth HK$10.5bn syndicated loan to container port operators, Hong Kong International Terminals.

The Hong Kong economy is still officially forecast to grow at 5 percent in 1989, while big infrastructure projects including the HK$127bn airport and other other infrastructure project. With between 40 and 60 per cent of the total financing for the project planned to come from the private sector, it should provide a significant boost to loan-demand in the coming years, though at the same time will test the confidence of the banks as 1997 approaches.

Hong Kong banking industry

Authorised institutions & licensed representation offices in Hong Kong



Year to 31 December

Source: Commission of Banking

John Elliott on the fortunes of the Hongkong and Shanghai Banking Corporation

Decision likely on Midland merger next year

MR WILLIAM PURVES insists that the Hongkong and Shanghai Banking Corporation, of which he is chairman, has been "an international bank from the day we were founded" in 1865.

Now he is on the brink of initiating dramatic moves which could turn what was originally a proud colonial boast into one of the world's leading international banks. The most likely vehicle for the transformation, on present trends, is the UK's Midland Bank.

"As I look forward, I see that about half the largest 30 banks in the world are Japanese, and in the future I see there being only two big British banks, two German and two French. And I wonder if the Hongkong Bank is going to find a way to be one of their competitors. That is a challenge we should face," he says.

With China's 1997 resumption of sovereignty over Hong Kong, and with the European single market coming before that in 1992, time is pressing. So 1990 is likely to be the year when Mr Purves and his distinguished board, thronged with the colony's top business names, make at least two major decisions.

The first will probably be to remove what, internationally, is an anachronism by revealing the bank's secret inner reserves.

"It is very probable in the not too distant future that there will be fuller disclosure,"

William Purves: considering some dramatic moves

says Mr Purves. "I think there is some merit in having hidden reserves, but the international trend is such that if the authorities are in favour we will move in that direction willingly."

No final decision has yet been taken, but there are several reasons for such a move which would involve opening up both the total reserves and annual transfers. Mr Purves says the reasons include Europe's 1992 developments and Swiss and West German banks' plans to start some disclosure.

The reserves are estimated by local analysts at around HK$20bn, with a top estimate of HK$30bn.

Published figures for the end of last year reveal shareholders' funds at HK$35.93bn, and capital resources including loans at almost HK$60bn. Profits for the year were HK$4.3bn after tax and undisclosed transfers to the inner reserves.

Disclosure would ease the way for next year's main move — a go or no-go decision on whether to expand a 14.9 per cent stake in the Midland. The stake was bought at the end of 1987 and is frozen till the end of the next year, unless both parties agree otherwise.

A merger of some sort with the Midland could save the Hongkong from having to operate as a major financial institution, with considerable international activities, under Chinese sovereignty, susceptible to the whims of unpredictable Peking regimes.

In recent years, the Hongkong Bank has been shedding some of its colonial image, spreading its wings abroad and buying subsidiaries such as Marine Midland in the US and James Capel in the UK.

In the past 18 months it has also been rationalising some of its operations with the Midland, selling or closing most of its own European operations and absorbing some Midland business in Canada and Asia.

At home, where it is proud of its role as the colony's premier bank, it has lost some of its clearing bank functions. Three months ago it modernised its statutory framework to come within Hong Kong's company law and opened its share register to public inspection for the first time.

Decision-making on the future is likely to start shortly after the Midland's annual results come out next spring when its international debt problems can be assessed.

"We have already achieved a great deal with the Midland. There are many benefits," says Mr Purves. "I don't know whether we will find it possible to go further but, yes, we will explore further possibilities."

There are three most likely options for a marriage — two would involve one of the banks taking over the other. The third, and the most widely rumoured as the favourite, would be the formation of a holding company to merge the two banks' interests.

Such a holding company would almost certainly have to be based in London. The Bank of England, which blocked the Hongkong Bank's attempted takeover of the Royal Bank of Scotland in 1981, is not expected to agree to a merged bank being based outside its jurisdiction in either Hong Kong or one of the offshore centres like the cayman Islands where many Hong Kong companies are seeking statutory domicile in advance of 1997.

In Hong Kong, it is proud of its role as the premier bank

But Peking, which is sensitive about British interests running off, so to speak, with the family silver before 1997, is not expected to like the idea of the base moving to London, even if the bank's own headquarters remained in Hong Kong.

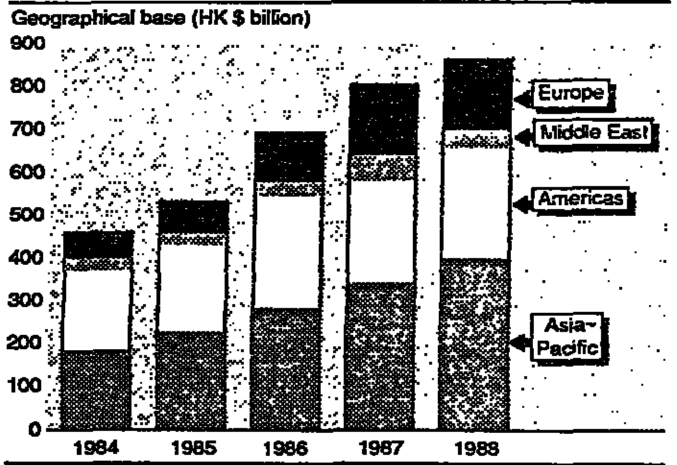
It could also point to the fact that it is already substantially domiciled outside the colony. At the end of last year it had 53 per cent of its assets outside the Asia Pacific region (see table). The total actually in Hong Kong is not thought to be much more than 30 per cent. But it has 185,000 shareholders, most of whom are thought to be in the colony, a situation which might not change much if a holding company were created.

Mr Purves argues that China would benefit from a merger — "I would have thought China would welcome positioning of the Hongkong to grow internationally and to provide an alternative for them to dealing with Japanese and other banks based elsewhere."

Peking's leaders, however, may not see it in such capitalist terms. They would probably be more concerned about the loss of prestige involved in Hong Kong losing sole control of its own internationally recognised bank. That poses a sensitive diplomatic dilemma which would probably involve the British Government as much as it involves Mr Purves and his board.

Hongkong & Shanghai Banking Corp.

Geographical base (HK $ billion)



Centre for regional fund management

Tapping the Asian cash flows

AS AN offshore investment management centre, Hong Kong has had to come to terms with political instability. Consequently, it is a place where you are more likely to find fund managers than funds.

This makes it quite unlike, say, Bermuda or Luxembourg, where the funds are likely to put up their brass plates but where there are only custodians and administrators, not portfolio managers.

Unfortunately, Hong Kong is not a place to inspire foreign confidence. Custody is not exactly a growth business. The territory has therefore decided to abandon the plan it was pursuing last year to seek recognition under Section 87 of the UK's Financial Services Act. This would have enabled management companies to market Hong Kong-based investment funds in the UK on an unrestricted basis, just like suitable funds from, for example, Jersey or Bermuda, which are among the territories to have obtained recognition in this way. In order to comply, Hong Kong would have had to supplement its existing voluntary unit trust code with more formal rules, and it would have needed to set up some kind of compensation scheme for investors in failed funds.

According to Robert Nottle, vice chairman and executive director of the Securities and Futures Commission: "The fund industry here is strongly of the opinion that it's not worthwhile." But he adds that the authorities will be looking at the question of statutory provision next year.

The SFC has concentrated in the short run upon putting Hong Kong's domestic house in order. Under the previous regulatory regime, the authorisation of new unit trusts and mutual funds had more or less ground to a halt, with approval taking as long as 18 months. So the first priority of the SFC in this area when it began operations last May was to clear up the backlog.

In September, it claimed success in this objective. This was achieved by putting more people on to the task, by streamlining the procedures and by sidelining 50 or so applications from fund companies which have been more interested in keeping a place in the queue rather than in actually launching a fund in the near future.

The number of funds in the applications pipeline has been reduced from 108 to a handful, and Mr Nottle claims that work can start on a new fund within one to two weeks, with approval coming a month later in straightforward cases.

Some 740 funds (including sub-funds) are now authorised for sale within Hong Kong. However, three-quarters of these are foreign-based funds originally approved in other jurisdictions (mostly the UK, Channel Islands and Luxembourg). And it is not possible to estimate the extent to which mutual funds are bought by Hong Kong residents.

However, net sales volumes for retail funds have not been very good recently, local practitioners say, and corporate fund management business has also become difficult.

According to Nigel Tulloch, who runs the investment management side of Wardley, the Hongkong Bank's merchant banking offshoot, local pension fund business has become "very tough."

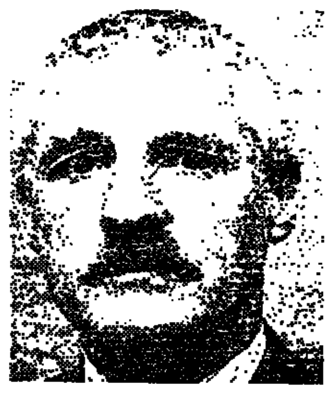
Meanwhile, Hong Kong-based managers have the opportunity to tap growing foreign interest in the Asia-Pacific region, as distinct from Japan. Hong Kong is an attractive base for regional managers, a theme emphasised by Duncan Mount, a leading local fund manager who is managing director of CEF Investment Management, a Hong Kong-Canadian joint venture.

There is quite a select group of international fund managers with offices in Hong Kong, including Fidelity, Templeton, and a number of the British groups. It is a compact and convenient location, apart from the high property costs.

Then there is Jardine Fleming, the local partnership between Jardine Matheson and the London merchant bank, Robert Fleming. Simon Hallett, a director of JF Investment Management, says that the company's client-base is becoming increasingly institutional. There is increasing scope to tap into the cash flows which move from north to south within Asia — from Taiwan and Korea these days, as well as from Japan.

The irony is that despite the expertise available within Hong Kong, the necessary political confidence is not there. Money moves elsewhere under the control of Hong Kong-based managers, but the Hong Kong stock market languishes on half the rating of many other regional exchanges.

Barry Riley



Robert Nottle: strong view

Stock market business volumes are "reasonably good," but . . .

Political uncertainty has hit share prices hard

THE NEW regime at the Hong Kong Stock Exchange is now a year old. Past problems – such as the four-day closure in October 1987 – are receding into history, although memories will be re-awakened by the forthcoming trials on corruption charges of Ronald Li, former HKSE chairman, and several of his leading officials.

This year the stock market survived without serious difficulties the sharp collapse in share prices which followed the Tiananmen Square massacre at the beginning of June. And last month's scare after the Friday the 13th collapse on Wall Street also created few problems.

Despite the Exchange reforms, tensions remain.

Business volumes are regarded as reasonably good. Turnover this year has been running at the second highest ever level, second only to the freak volumes which led up to the 1987 crash. In the financial year, ended June, the number of listed companies rose by 12 to 293.

But political uncertainty has cost the market dearly, compared to its neighbours in south-east Asia which have mostly been booming.

According to John Mulcahy, head of research at Peregrine Brokerage, the political discount applying to Hong Kong stocks widened from some 35 per cent to 55 per cent after June 4, and is still 50 per cent. This is based on ratings compared with those on other regional exchanges. Moreover, he says, "outside investors are not interested in anything other than the top dozen or so stocks."

Despite the reforms there remain obvious tensions between the Stock Exchange and the authorities – both the Government, which supervises the Exchange on a policy basis through its Monetary Affairs branch, and the new Securities and Futures Commission, which has day-to-day responsibility for the financial markets.

Francis Yuen, chief executive of the Stock Exchange, says he is pleased with his largely new team. "The good thing about being new is that everybody is very energetic," he says.

Energy there needs to be, because although the new framework of councils and committees is in place, with broader representation of different interest groups, the next phase of regulatory change is now well under way.

This involves measures by the Government to tighten up the insider dealing rules and strengthen the requirements for disclosure of dealings by major shareholders and connected parties.

The Stock Exchange's new listing rules will incorporate some of these requirements, at the same time as eliminating the scope for abuses such as the manipulation of new issue prices which the previous regime was accused of. At the same time the Stock Exchange is developing new rules for supervising its members, for instance through the use of quarterly returns.

Controversy has developed in two main areas. The enhanced disclosure and insider dealing rules are widely regarded as alien to Hong Kong's free-wheeling culture, and are particularly threatening when much of the liquidity in Hong Kong mainly family-controlled listed stocks is provided by insiders.

"Disclosure must be handled quite carefully, in terms of not draining too much liquidity away from the market," says Philip Tose, chairman of Peregrine Capital.

Mr Yuen is also worried about the possibility that controlling shareholders will be forced into inactivity. "They act as buyers and sellers of last resort," he says.

"This should be allowed to continue. We will continue to make our views known."

But he adds: "In general, we will support the insider trading legislation."

The other controversial subject is that of settlement. Last month the SFC "warmly" welcomed the HKSE's decision to accept the main features of a proposed new central clearing and settlement system.

The first stage, involving the netting off of bargains, and thus a sharp reduction in the huge volume of paper-shuffling involved in settlement in Hong Kong, is due to be completed by September 1 next year. Then, by June 1991, stage two, the move to scripless settlement, should be implemented.

Where the controversy arises is over the settlement period, which is inconveniently short for international brokers. At present it is notionally on a 24-hour basis, so that elevators in the financial district seem to be full of messengers delivering bundles of scrip.

But there is no penalty for lateness, and only three-quarters of bargains are in practice settled on time. Now the HKSE has decided to move to 48 hours (T+2) but with a penalty for late completion.

Mr Yuen expects more than 90 per cent of bargains will meet the new deadline. However, brokers with foreign clients will often have to incur extra expense by borrowing stock if they are to meet T+2. The SFC has seen T+3 as the absolute minimum if international business is not to be damaged.

Barry Yates of First Pacific Securities says that the pressure for longer settlement times is viewed by small brokers as threatening increases in their working capital requirements, and could aggravate bad debt problems.

The HKSE has hit back at the authorities by pointing out that the recent international Group of Thirty study on settlement called for as short a period as possible. It has also agreed that the new system should be designed to be easily switchable to a T+3 basis, if T+2 proves unsatisfactory.

This leaves the SFC still grumbling at the compromise – "the SFC has the most severe reservations," says the Commission's chairman, Robert Owen. But Francis Yuen insists: "We do not wish to be unreasonable."

Barry Riley

Barry Riley looks at regulation of financial markets

Regulators are balancing on a tightrope

VISIT Hong Kong's financial district and talk to its practitioners and you will quickly find that Robert Owen is one of the most unpopular men around.

He is accused of numerous sins, including the attempted importation of a wholly alien Anglo-American business culture, and the poaching away of valued employees for fancy salaries. You will be told he is not afraid to tread on toes to get his own way. If he is allowed his head, locals complain, he could "ruin" Hong Kong as a financial centre.

Mr Owen is the British ex-diplomat turned merchant banker who arrived in the territory just over a year ago, first to set up and then to run, as executive chairman, the powerful new Securities and Futures Commission, which started operations last May.

Robert Owen: he never expected to receive much praise.

He never expected to receive much praise — "If everyone was saying I was doing a great job, I would be very worried," he remarks, insisting that the complaints about excessive burdens are unjustified. "There is only one-tenth the regulation of the UK."

David Nendick, secretary for monetary affairs, who carries overall responsibility for financial market policy, is keen to soothe anxieties — "the markets are expecting the worst," he says, "but it is too early for people to point the finger at mistakes. There are a number of safeguards which prevent any likelihood of over-regulation."

The official theme is that the territory must steer a delicate course between over-regulation and under-regulation. It must develop a respectable image as a place for people to do international business. With this in mind, it must keep up to date as regulations tighten elsewhere. On the other hand, it must never be in the vanguard, and cannot afford to leave businessmen fearful of arbitrary judgments by bureaucrats. Hong Kong financiers point to the fact that Jardine Fleming, one of the territory's leading merchant banks, is still banned in Singapore.

How this delicate balance can be achieved is another matter. At this stage, the regulators are trying to gain political capital from the resilience of the stock market and the futures market in the face of the localised crash in June, and the global mini-crash in October.

It was the stock market crash in October 1987 that set the whole regulatory bandwagon in motion. Scandalously, the Hong Kong Stock Exchange closed for four days, the only significant stock market around the world to do so, and the Futures Exchange collapsed under the weight of some HK$1.8bn of bad debts.

Soon afterwards the chairman and several other top officials of the HKSE were arrested on corruption charges relating to alleged offences which pre-dated the crash (the trials have still to be held).

Things are different now. "Our markets have matured very much since 1987. There was no need even to consider a closure of either the stock market or the futures market," said David Nendick in the wake of the Friday the 13th crisis on Wall Street. "All the major reforms were in place."

But a solid stock market is only a beginning. The regulators are labouring to build a modern framework in a hostile environment, a process which is not helped by the fragile political climate.

After six months the SFC has recruited some 200 out of a total planned payroll of 230 people, including 100 professionals. Of the latter, 25 were recruited from the old securities commissioner's department, which unlike the SFC was part of the civil service and was bound by public sector pay scales.

The SFC can pay more, but has not been able to recruit locally as it would like. Either the Hong Kong Chinese have inadequate experience or they are paid too much. All five executive directors were therefore recruited outside Hong Kong. However, local professionals in junior posts are being groomed for succession.

The delicate political situation is unhelpful. "This is an environment in which moral suasion has limited force," says Robert Owen. "People don't have a long-term commitment." So in conditions in which many financial operators are trying to make a quick killing before leaving, the SFC can scarcely depend upon peer pressure and a high degree of co-operation.

Although a new regime has been installed at the Hong Kong Stock Exchange, relationships with the authorities remain touchy. The Stock Exchange Committee, for instance, has declined to lengthen the standard 24-hour settlement period for bargains as much as the SFC would have liked. The proposed two-day turnround is less than the minimum three-day period which would have been more convenient for the international investors the SFC wants to encourage.

Unexpectedly, though, the main tensions have not been with the markets but with listed companies. Ermanno Pascutto, the SFC executive director in charge of corporate finance, is handling the question of disclosure of dealings by directors and substantial shareholders. This has become more controversial with the tabling of an Insider Trading Bill.

A new Ordinance on disclosure will tighten up the rules and will also close the loophole whereby the increasing numbers of Hong Kong listed companies which emigrate (something like a fifth are now registered overseas, usually in Bermuda or Cayman) evade the existing disclosure legislation. This anomaly will be corrected by making disclosure part of the Stock Exchange listing rules.

Mr Pascutto says that although local companies are understandably worried about inadvertantly falling foul of the insider trading provisions, his period as a regulator in Ontario in rather similar circumstances makes him confident that the fears are exaggerated.

"A lot of the unease will evaporate after people have had experience," he says.

He stresses the benefits which SFC-style regulation can bring to Hong Kong companies. For instance, there are plans to speed up rights issue procedures and to permit share buybacks, on a controlled basis. There are also suggestions that short selling of shares, at present banned, might be made permissible, subject to detailed safeguards.

Mr Ermanno is also involved in redrafting the UK-style Takeover Code, aiming at reorienting it away from hostile takeover bids, of which there are comparatively few in Hong Kong.

Instead, it will focus more on protecting the minorities affected by agreed deals, a much more common area of controversy in the territory, where nearly all listed companies are controlled by dominant shareholders or families.

CAPITAL MARKETS

Efforts to stimulate growth

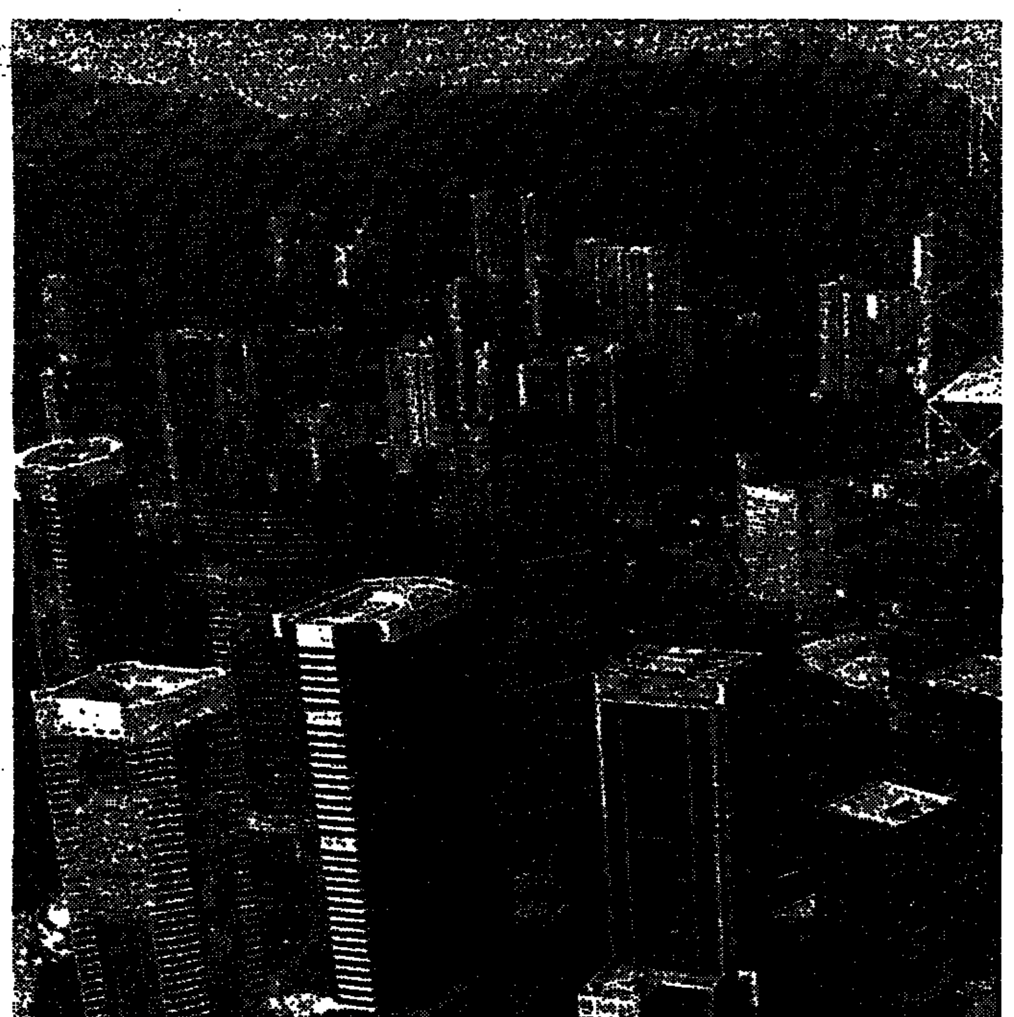
THE PAST 12 months have seen some significant developments on Hong Kong's debt markets. In the march budget, the Government abolished the interest withholding tax in an effort to stimulate growth in local capital markets, while a change of heart on allowing international borrowers to tap the Hong Kong dollar market cleared the way for a groundbreaking HK$500m bond issue from the World Bank in May.

Yet another boost is due early next year when trading in the Government's new *exchange fund bills* is scheduled to get under way. However, despite all these developments, few market participants are predicting any dramatic surge in the number and value of debt instrument issues, the number and total value of which are running at around half the levels seen in 1986, when 96 issues worth a total of HK$22bn came onto the market.

Obstacles to growth include a thin secondary market, with around 90per cent of all paper quickly disappearing and being held to maturity, while a there is a shortage of high quality corporate issuers and an investor base limited by the HK$500,000minimum denomination for Hong Kong dollar certificates of deposit.

But the biggest problem, and the object of consistent lobbying by the Hong Kong Capital Markets Association (HKCMA) is the continued imposition of profits tax levied on Hong Kong dollar paper, resulting in local corporate investors choosing foreign currency investments or swap deposits, rather than home-grown products, in order to escape tax.

"The amount of money which escapes the tax net is HK$50bn, twice the size of the total paper outstanding in Hong Kong," said Mr Patrick Thomas, managing director of Manufacturers Hanover Asia and chairman of the HKCMA, who said that the Government was showing a certain amount of sympathy towards the association's position, and was working to help the local market, as evidenced by the relaxation of controls on international issues.



A section of Hong Kong's central business district. One of the biggest problems in the capital markets, and the object of consistent lobbying by the Hong Kong Capital Markets Association, is the imposition of profits' tax, levied on Hong Kong dollar paper.

Since the Government softened its stance on letting in foreign borrowers, there have been two serial bond issues totalling 790m from Australian airline, Qantas – which could demonstrate a connection with the territory and consequent hong kong dollar requirements – followed in May by the more significant HK$500m six-year bond issue by the World Bank.

The Hong Kong authorities had previously argued that foreign issues could destabilise the Hong Kong dollar link, though in reality a rush is unlikely as few international institutions have Hong Kong dollar needs.

"The World Bank issue was important for the market," said Mr Karl Hurst, director of Schroders Asia, "it was well overdue allowing foreign borrowers to access our market."

Capital markets dealers hope that such high quality issuers will increase investor-awareness in Hong Kong, as will the planned weekly auctions of government debt instruments.

The 13-week exchange fund bills, which will total between three to four billion outstanding at any one time, once the programme gets underway, will be used only for exchange fund functions such as intervening in the interbank market to stabilise the currency link with the US dollar, and will not be used to finance deficits.

"Exchange fund bills will help create a general awareness of the market's capabilities," said Mr Patrick Thomas, and while not seeing them as a panacea for the shortcomings of the local capital market, he hopes that by helping dealers build up client relationships for the regular issues, doors will be opened for dealers to interest investors in the full range of Hong Kong dollar products on offer.

Michael Marray

New facilities for international business visitors

Big investments in tourism

PERCHED on the southern edge of China, Hong Kong's travel industry has carved itself a lucrative *niche* as a gateway for both businessmen and tourists, flying them in from around the world and providing a convenient stop-off in its luxury hotels to recover from jetlag or enjoy a few days rest and recreation after the rigours of travel on the mainland.

However, despite the importance of this gateway role, around 80 per cent of the 5.6m travellers who visited the British colony last year were not China-bound at all. After a confidence-shaking year, politically this is helping Hong Kong to boost its image as a separate destination and as a jumping-off point to other countries in Asia.

Billions of dollars are being invested in new luxury hotels, extra long-haul aircraft for non-stop connections to Europe and North America, and a huge new airport project which will replace the overcrowded Kai Tak Airport in the mid-1990s.

These will add to the attractions both for businessman, who made up 21 per cent of arrivals last year, and even more so for the other 79 per cent made up of tourists, people visiting friends or relatives, and visitors making a stop-off *en route* to other destinations.

Hong Kong's thriving retailing industry, with its thousands of small camera and electronics shops, luxury boutiques selling designer-luggage and clothes, and big Japanese department stores are also strengthening the image as a mecca for shoppers from around the world.

Two new buildings on either side of Victoria Harbour are also seen by the Government as helping Hong Kong establish itself as a major entertainment centre. Currently in the midst of its opening season is the Hong Kong Cultural Centre, a performing arts complex on the tip of the Kowloon waterfront, while facing it across the water on Hong Kong Island is the Hong Kong Convention and Exhibition Centre, which staged its first event a year ago.

Mr Douglas King, general manager for marketing at the Hong Kong Tourist Association, acknowledges that the colony has not traditionally been associated with the arts, and has not stressed the opportunity for cultural activities in its promotions.

That is now changing, and Cultural Centre is one of the key points in the stay-an-extra-night promotion, allowing a longer stay to see top local and international performers.

In its first six months, the centre is playing host to the Boston Symphony Orchestra and the National Theatre of Great Britain as well as local acts, such as the Hong Kong Chinese Orchestra.

Of less artistic merit, but likely to be an even bigger dollar-earner for the local tourist industry, is the convention centre. In the first half of this year, 58,800 overseas visitors attended conferences or exhibitions, an increase of 54 per cent over the same period last year, while visitors on incentive travel programmes – such as top automobile or insurance salesmen being rewarded by their employers with a trip overseas, were up by 12 per cent to 39,000.

The centre already has good occupancy levels of around 65 per cent, and the big international events – which are usually booked several years in advance, will start appearing later.

Events already booked include the International Bar Association Conference in 1991, and the Federation of Automation Dealers of Canada annual conference in 1992.

According to Miss Helene Li, director of marketing at the centre, business has not yet been affected by the trouble in China, with no cancellations or softening in new bookings.

"People look at Hong Kong very much for international and regional attendance," says Miss Li. The Hong Kong Centre competes for business with centres all over the world, in addition to other Asian locations.

"Very little business is booked just because we are next to China," she says. If this proves to the the case, it will be good news for the local tourist industry. Delegates to conventions and exhibitions, who stay twice as long as the 3.4 nights on average and spend three times as much as the average visitor.

The two complexes are helping to secure a future for Hong Kong at a time when the number of visitors arriving is declining in the wake of June 4.

Following the record year for arrivals in 1988, the first half looked rosy, with growth of 8 per cent over the first six months of last year.

But in the aftermath of the Tiananmen Square crisis, this has changed. Arrivals from the United States and Europe have since been running 30 per cent down compared to the same period last year, while the number of Japanese visitors has fallen by 18 per cent.

This year is now expected to end with an overall 5 per cent decrease in arrivals. This trend is particularly unwelcome at a time of a construction boom in the hotel sector, with 5,000 extra rooms coming on-stream this year, and several thousand more each year until 1992.

The average occupancy of Hong Kong hotels was 92 per cent in 1988, but excess capacity is now leading to rate-cutting and the short-term prospects for the industry's profitability do not look good.

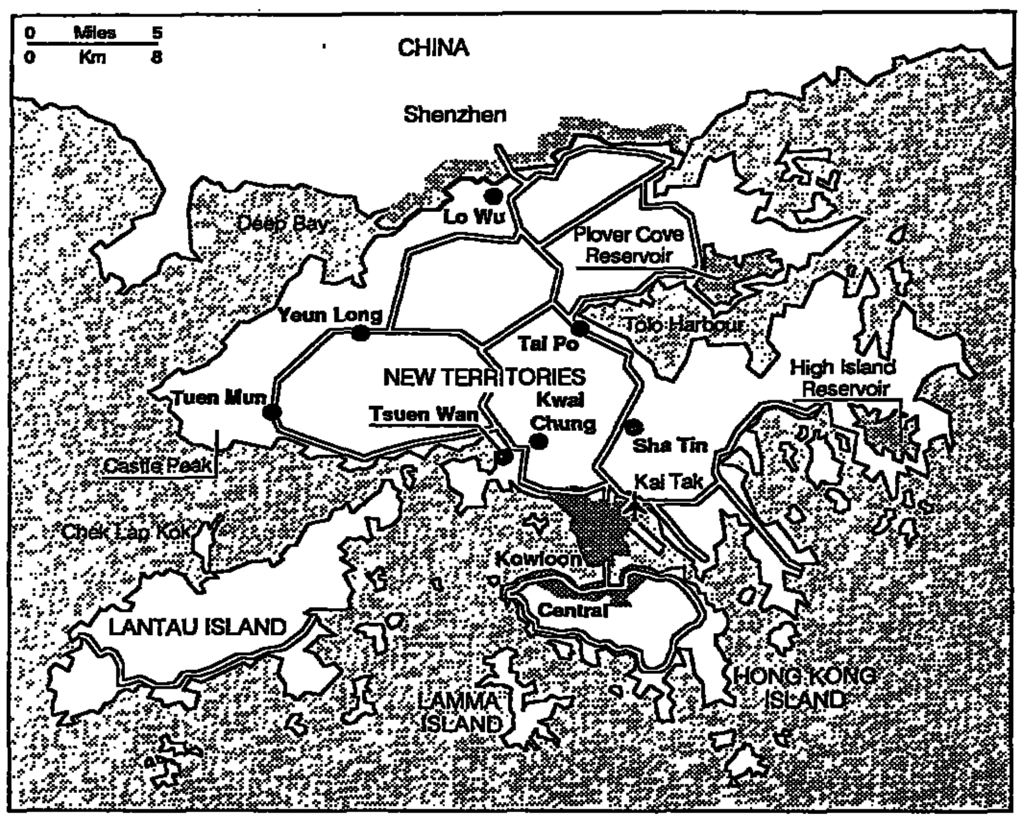
Additional advertising is being done to sell Hong Kong as an individual destination on the back of its exotic image, or package it with other Asian countries.

Mr Douglas King acknowledges that for some long-haul visitors from places such as the United States, China and Hong Kong are bound together in a single package, and it may be hard to sell one without the other. It is, however, likely to remain a popular choice as a venue for the big conferences – mixing work and leisure.

One obstacle to growth here is the difficulty citizens from the Soviet Union or Eastern Bloc countries have traditionally had in obtaining entry visas to the colony. This has been relaxed over the past two years, but the tourist association is pressing for further relaxation – arguing that the visa problem is effectively excluding Hong Kong from being the venue for some international exhibitions.

With these obstacles to growth out of the way, and extra spending on a big overseas marketing campaign, the association believes Hong Kong can restore growth and retain its position as one of the most visited places in Asia, both as a starting point for China travel, and even more important in the light of recent events, as a destination in its own right.

Michael Murray



Hong Kong's new Convention and Exhibition Centre, overlooking Victoria Harbour.

Wayne Maddern, executive director of the Hong Kong Cultural Centre, (with external view inset, above right).

Fresh hopes on the Futures Exchange

Here comes Hibor

TWO YEARS after a government-led rescue in the wake of the 1987 world markets crash, activity on the Hong Kong Futures Exchange remains a shadow of its former self.

A period of reconstruction which followed the controversial four-day closure and near collapse of the exchange has been primarily concerned with restructuring the membership and management and introducing better risk management procedures.

But with these foundations now in place officials hope that the planned launch within the next few months of a new 91-day Hong Kong dollar interest rate contract will usher in a new era of expansion, with at least one new product being launched each year for the next five years, to add to existing trading in gold, sugar, soybean and stock index contracts.

The shadow of 1987 lives on in the form of a special transaction levy of HK$30 each per trade for both buyers and sellers of Hang Seng index futures, the proceeds of which are being used to repay the government and financial institutions which bailed out the exchange with a HK$2bn lifeboat facility in 1987.

"The transaction levy is a major problem," said Mr Eric Cheng, director of futures and options at brokers, James Capel, one of the major players in the local market, "you need a low-cost structure so that small movements will be profitable."

With the contract set at HK$50 per one point move in the Hang Seng index, day traders need high volatility to break even once brokers commissions and stamp duty have been paid, and Futures Exchange officials are lobbying the Government for a downward adjustment to the levy, a move which they argue could boost volume significantly and thus not harm the lifeboat repayment schedule.

High initial margin payments are also a source of discouragement for investors, but while wishing to stimulate trading activity the exchange, the management is also determined to avoid a return to the kind of excessive speculation seen in 1987 which low margins could bring.

Margins are continually under review, both in order to keep in step with the value of a single contract as the market rises and falls, and to reflect conditions of volatility in the market. Brokers are set minimum margins for clients, which are set at HK$15,000 for clearing members on a contract worth HK$135,000 at October levels of around 2,700 points.

The October jitters on world stock markets saw an increase in daily volume to over 2,000 lots on some days, and both officials and traders were happy with the smooth way in which the market has functioned in times of high volatility. "People participating now are certainly more experienced," says Mr Douglas Ford, chief executive of the Futures Exchange, "and risk management procedures are more than adequate."

In addition to margin adjustments, these include a revamped clearing system and a HK$200m guarantee fund financed through a combination of contributions from clearing members and brokers, bank guarantees and an insurance policy.

Mr Ford now sees four main areas of potential expansion into new product areas. In addition to the existing stock index contract, the exchange may introduce stock index options as well as contracts based on stockmarket sub-indices, while the three-month Hibor (Hong Kong interbank offered rate) contract may pave the way for other contracts of varying maturity.

Hopes are focussed on the long-awaited Hibor (Hong Kong interbank offered rate) contract

Mr Ford would also like to see more activity on the little traded gold contract, which at present loses out because most local investors prefer to trade on big overseas markets such as New York or London.

The fourth area is currency futures, but here also Hong Kong investors tend to trade US dollar contracts on well-established markets such as Chicago, and it could prove difficult to establish a specialised Hong Kong dollar product.

In the longer-term, China-related products such as contracts based on agricultural and other commodities could also earn a place on the local exchange, but Mr Ford points out that China's own cash markets have some way to go in terms of pricing structures, quality control and legal systems before futures markets based on their produce become a reality.

In the meantime, despite regulatory delays, hopes are focussed upon the long-awaited Hibor contract, which brokers forecast will quickly outgrow the volume seen on Hang Seng index futures and reach several thousand lots per day.

That will still be a long way short of turnover during the heyday of the exchange, when turnover of 25,000 lots per day for a time made Hang Seng index futures one of the most heavily traded contracts in the world – but will none the less represent a major step for an exchange whose very existence was being called into question only two years ago.

Michael Murray